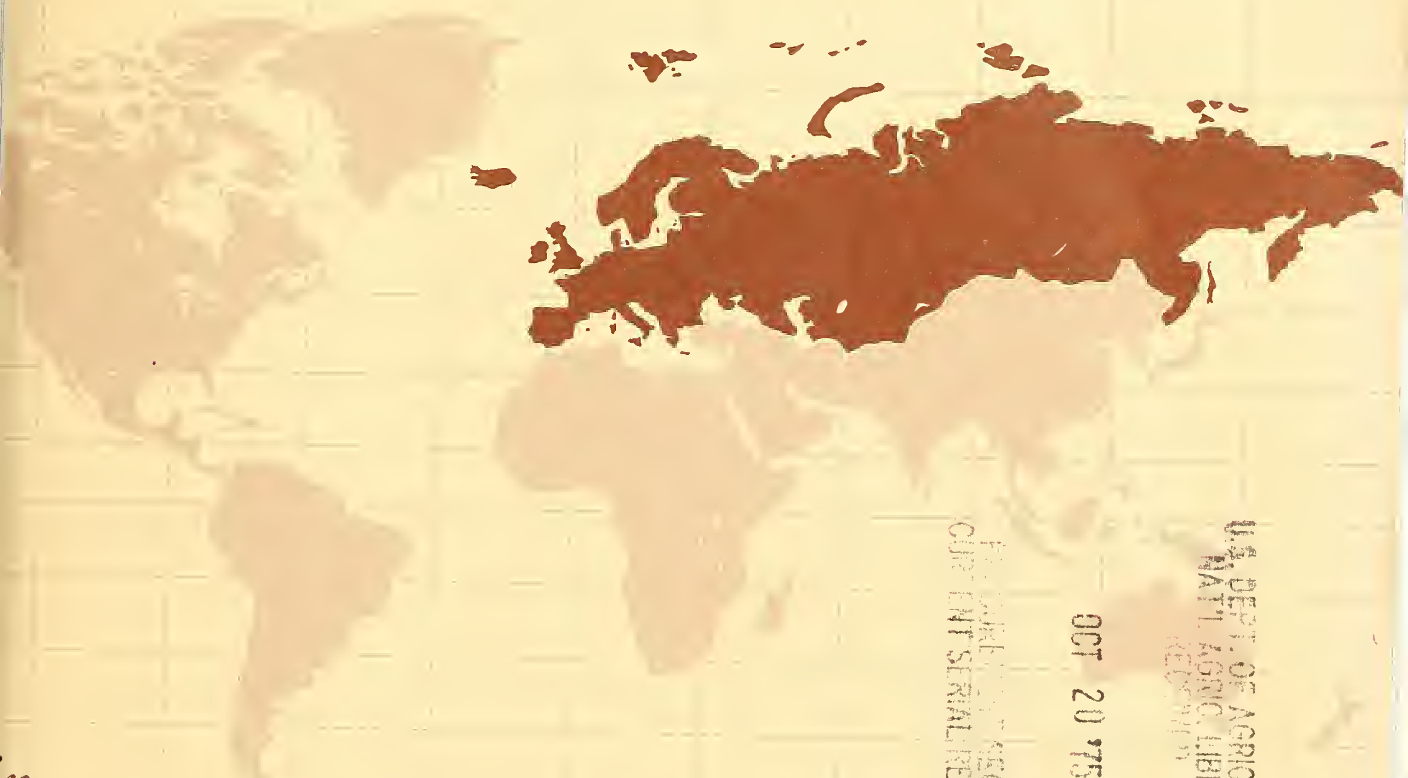
AGRICULTURAL POLICIES



in EUROPE AND THE SOVIET UNION

FOREIGN AGRICULTURAL ECONOMIC REPORT NO. 46

U.S. DEPARTMENT OF AGRICULTURE
ECONOMIC RESEARCH SERVICE
Washington, D.C.

Foreword

This report reviews policies likely to have an impact on the level or composition of agricultural production in Europe and the Soviet Union, or on U. S. agricultural exports. It is one of a series of reports being published on the agricultural policies of foreign governments. Reports in the series include Agricultural Policies in the Western Hemisphere (Foreign Agr. Econ. Rpt. No. 36, October 1967) and Agricultural Policies in the Far East and Oceania (Foreign Agr. Econ. Rpt. No. 37, November 1967).

Five other reports describing agricultural policies of foreign governments, including those of Europe and the Soviet Union, have previously been issued by the U. S. Department of Agriculture. The first was a review of depression policies before World War II, and the most recent, published in March 1964, was Agricultural Policies of Foreign Governments--Including Trade Policies Affecting Agriculture, Agriculture Handbook No. 132.

Agricultural Policies in Europe and the Soviet Union contains analyses of five of the six member countries of the EEC, the seven countries of the EFTA, and other European countries. It was prepared by the staff of the Europe and Soviet Union Branch under the direction of Fletcher Pope, Jr. Harry E. Walters was responsible for the section on the Soviet Union, and Roger E. Neetz for Eastern Europe. Others who participated in the preparation of the report included Marshall H. Cohen, Reed E. Friend, Brian D. Hedges, Jerome A. Levine, James Lopes, James J. Naive, William E. Pearson, Robert E. Shepherd, Sheldon K. Tsu, and Thomas A. Vankai. David M. Schoonover coordinated the work on the final draft of the report.

Acknowledgment is extended to the Foreign Agricultural Service for assistance provided, especially by U. S. Agricultural Attaché personnel. Their information, together with the agricultural policy reports of the member countries of the Organization for Economic Cooperation and Development, was invaluable. The report also benefited from the major contributions of Donald Chrisler, Office of the Director, Foreign Regional Analysis Division. However, the Europe and Soviet Union Branch bears full responsibility for this publication.

In general, this report is based on information available through December 1967.

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Abbreviations

CAP. . . . Common Agricultural Policy of the European Economic Community.

CEMA . . Council for Mutual Economic Assistance (Members: Bulgaria, Czechoslovakia, East Germany, Hungary, Mongolia, Poland, Romania, and the Soviet Union. Associate member: Yugoslavia.)

CXT. . . . Common External Tariff of the European Economic Community.

EEC . . . European Economic Community (Members: Belgium, Luxembourg, France, Italy, West Germany, Netherlands. Associate members: Greece, Turkey.)

EFTA. . . European Free Trade Association (Members: United Kingdom, Austria, Denmark, Norway, Sweden, Switzerland, Portugal. Associate member: Finland.)

FEOGA. . European Agricultural Guidance and Guarantee Fund of the EEC.

GAP. . . . Gross Agricultural Product.

GATT. . . General Agreement on Tariffs and Trade.

GDP. . . . Gross Domestic Product.

GNP. . . . Gross National Product.

OECD. . . Organization for Economic Co-operation and Development. (Members: The United States, Canada, Japan, Turkey, Yugoslavia, and all West European countries except Finland.)

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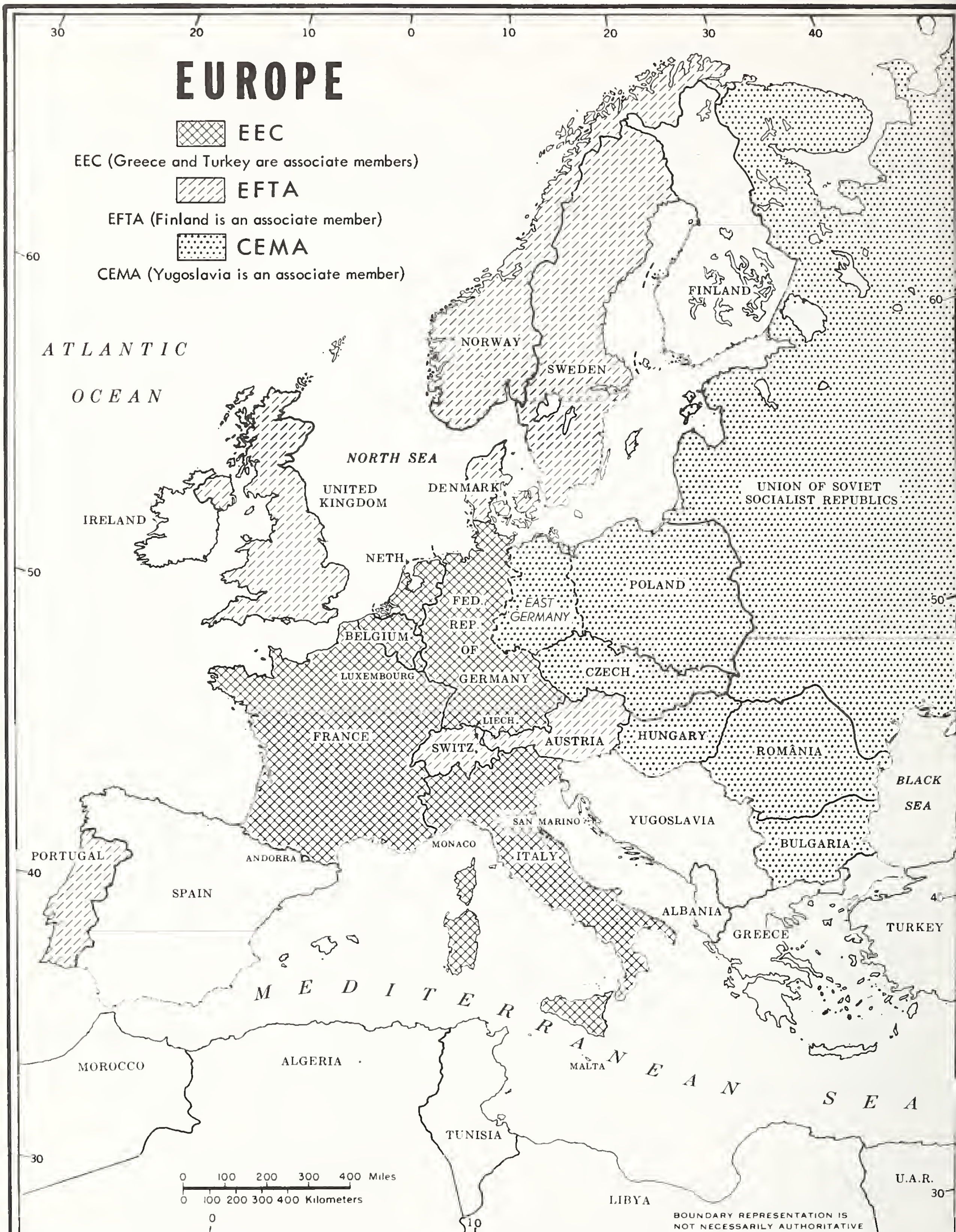

U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 5311 67(8) ECONOMIC RESEARCH SERVICE

Agricultural Policies in Europe and the Soviet Union

by the Europe and Soviet Union Branch
Foreign Regional Analysis Division

Summary

Agricultural policies in Western Europe and in the Soviet Union and Eastern Europe have changed significantly during the 1960's. In Western Europe, the major forces of change have been economic integration and rapid economic and technological growth. In the Soviet Union and Eastern Europe, change has occurred primarily because of a realization by the governments of these countries that the potential for development of agriculture has not been fulfilled under past policies emphasizing collectivization. Nevertheless, policies in Europe and the Soviet Union still reflect forces which have been operative for many years.

Many of Western Europe's long-standing agricultural problems have not been resolved by previous policies. Throughout the region, small farms predominate. These farms are often fragmented, farm labor is underemployed, and farm incomes are low relative to incomes outside agriculture. Heavy reliance in the past on high price supports (reinforced by protective import policies) to support farm incomes has worked against solving these basic structural problems. There seems to be a growing realization in Western Europe that policies designed to improve the structure of agriculture must be emphasized.

Some existing policies are designed to increase farm size to a more economic level and to increase marketing efficiency. Yet these programs are often of secondary importance; price supports are still a major tool for supporting incomes and are given an additional role of guiding agricultural production. These two roles are often in conflict. Price supports have limited flexibility in guiding production for two reasons: first, the government's freedom to adjust prices is limited, and second, the response of farmers to price changes is slow. High price supports have encouraged surpluses of some commodities while commodities not as heavily supported are in deficit supply. Direct production controls are not commonly employed in Western Europe.

In the field of trade policy, quantitative import restrictions have been eased. Further, the Kennedy Round and earlier rounds of trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT) have lowered tariff barriers substantially. But variable levies constitute an effective barrier for some important commodities imported by the European Economic Community (EEC) 1/ from nonmember countries. European Free Trade Association (EFTA) countries whose trade is highly dependent on EEC markets have in several cases adopted

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1/ The terms EEC, Community, and Common Market are used interchangeably.

domestic policies paralleling parts of the CAP (Common Agricultural Policy) of the EEC and have geared their trade policies toward maintaining markets in the EEC. Bilateral agreements between members of EFTA and the EEC have also helped to maintain trade between the two blocs. However, some disruptions of trade patterns have occurred. Attempts by some non-EEC countries to lessen EEC barriers, on an individual or a multinational basis (e.g., in GATT), have not always been successful. In addition, nontariff barriers remain an important form of protection in the EEC and in other West European countries.

In the countries of the EEC and, to a much lesser extent, in EFTA, changes in policy have been necessitated by closer integration of the economies of the individual member countries. Specialization and freer trade within these groupings have forced a reevaluation of many national policies and programs. In the EEC, an area-wide Common Agricultural Policy now covers over 90 percent of farm production. In both the EEC and EFTA, other policies affecting agricultural trade between member countries--food and veterinary regulations, tax policies, etc.--are being liberalized and unified. Changes in the agricultural policies of other West European countries have occurred in the wake of rapid economic and technological development and changes in the demands of domestic and foreign markets.

Attempts to strengthen economic relationships and promote regional specialization within the EEC and EFTA have been limited by inherited agricultural problems and policies, reinforcing the argument for policies to strengthen the economic structure of agriculture. It remains to be seen whether these policies--some already adopted--will receive the emphasis that is required to lessen the farmer's need (1) for price supports at levels far above prices on the world market or prices of efficient producers in other countries and (2) for protective import policies.

As for the USSR and Eastern Europe, agricultural policy decisions since 1963 reflect a response to the economic slowdown of the mid-sixties and a determination to correct the loosely formulated directives of the past 10 years. Administrative reorganizations and dependence on extensive means to raise agricultural output in the USSR--the patent answers to agriculture's problems under Khrushchev--were shelved for intensive means under Brezhnev and Kosygin. The immediate objective of the new leadership was to raise grain production.

Subsequent Soviet agricultural policy decisions have evolved around the grain problem. A fixed annual level of grain purchases was established for 1966-70, but an annually increasing share of total output of livestock and other agricultural products was programmed for government purchase. The directives setting the amount of these purchases will allow farm managers to plan rotation patterns and land use several years in advance.

The USSR's major price increases for grain and meat in May 1965 followed a general price increase for most other agricultural commodities during the preceding year. Thus, total farm income was raised. A larger share of this additional income was reinvested by farm managers. Wages of collective farm workers were also revised to more nearly equal those of State farm workers. These increases probably were an incentive to improve farm management, labor discipline, and farm operating practices.

Productive inputs and capital investment, the keys to intensification, became more important after 1964. Plans through 1970 suggest that this trend will be continued. Most striking has been the increased use of fertilizer, particularly on grain areas.

Policies designed to stabilize yields in the major marginal wheat-growing areas are also in effect. The program of heavy exploitation of the dryland areas has been cut back, and moisture conservation programs are being emphasized. Irrigation of grain, as well as industrial crops, has been emphasized.

Resolution of the grain problem could permit government policymakers to concentrate on other objectives of agricultural development. Livestock development, slow by Western standards, could be speeded up if planners hold to the program to create a stronger feed grain base. Industrial crops already developing favorably may be strengthened by a broader application of modern farming techniques and by introduction of improved varieties of plants.

Although Soviet writers have made a variety of proposals calling for major changes in the methods of farm management and operation and the use of market forces in agriculture, most of these have been rejected by the present party leaders. Improvement in agriculture, accordingly, lies in the more efficient use of material inputs, judicious use of available capital, and incentive programs for farm labor.

In the East European economies, agricultural programs in the past decade were guided by the politico-economic dictum that maximum output and efficiency could be achieved simultaneously with the socialization of economic resources. Because there was more emphasis on socialization, under compulsory conditions, and low economic priority was given to agriculture, only some of the stated objectives were achieved. Collectivization was completed, industrial development was furthered, but agriculture stagnated. Output in most countries remained low and productivity and efficiency did not improve significantly.

Increasing the rate of growth or, alternatively, stabilizing the rate of growth of the agricultural sector, has been considered a more important goal for the last half of the sixties than further socialization. No single country program has been established as the economic model for reaching this objective, but there are few divergencies from the guidelines accepted throughout East Europe.

Priority is given to increasing the use of material inputs (fertilizer, machinery, etc.), secondary importance to major reforms in pricing policies and other economic levers, and third priority to programs which give more of the day-to-day decision-making authority to farm managers. Agricultural production goals are generally lower and more closely related to the economic capabilities of each country than had been the case previously.

The degree of difference in emphasis is more a function of the stage of economic development or specific conditions in each country rather than an attempt to formulate a policy independent of Communist thought. Emphasis is given to organization and management in East Germany and Czechoslovakia, industrially advanced countries in which agricultural possibilities are limited and already fairly intensively exploited. In Poland and Yugoslavia, price incentives are currently being used to generate a response from the large number of underemployed peasants. There the deciding factor is the skill of the peasant, since the volume of material inputs is still relatively low and major immediate changes in farm size and organization have been ruled out. In Hungary and Bulgaria, policies on both prices and material inputs are more often used than reorganization schemes, but there, too, the stage of economic development is a factor. Romania is currently using all three types of policies to expand production. The major emphasis is on ma-

terial inputs, followed by organizational schemes, and finally by price incentives.

Earning hard currency by exporting surplus agricultural products is a basic goal of agricultural policy in Bulgaria, Hungary, Poland, Romania, and Yugoslavia. Czechoslovakia and East Germany are major importers of agricultural products, but both still export small quantities of raw or unprocessed products.

But making collectivized agriculture work is still the primary policy objective of all these countries.

Western Europe

EUROPEAN ECONOMIC COMMUNITY

For a decade the world has watched with interest as six West European countries have followed a carefully calculated course leading toward complete economic union and greater political interdependence. One of the most complex and interesting developments of this period has been the formulation of a Common Agricultural Policy (CAP) for the six nations. Much of the difficulty in developing a CAP has been the diversity of agricultural problems and policies in the member countries.

A customs union was to have been established by 1970 under the Rome Treaty signed in 1957. However, the Council of Ministers decided in July 1966 to accelerate the schedule to July 1, 1968. At that time, there is to be free internal trade in both agricultural and industrial items, as well as a Common External Tariff (CXT) or, for most important agricultural commodities, a common system of variable import levies applied to imports from the rest of the world.

Agriculture in the EEC countries continues on a course of rapid modernization and adaptation to changing markets which began in the early postwar years. Yet much remains to be done. The EEC's basic agricultural problem is a structural one--farms that are too small and an obsolete agricultural marketing system--manifested as an income problem for many of the Community's farmers.

Although farm size and income vary greatly among the six members and even more between regions within countries, the problems are Community-wide. Almost half of the Community's farms are under 5 hectares in size.

Another structural problem is the extreme fragmentation of farm holdings in many regions. The earnings of the agricultural sector must support too many farm families. In 1965, the percentage of the labor force employed in agriculture ranged from 6 percent in Belgium to 25 percent in Italy.

Historically, these countries have sought to increase farm output and incomes via regulation of internal prices, supported by restrictive import policies for commodities produced domestically.

During the rapid economic growth of the 1950's, the disparity between farm and nonfarm incomes increased despite rising farm incomes. The emphasis of agricultural policy shifted from increasing total farm output to-

ward lessening this income gap and improving rural welfare. Price supports and measures to increase productivity were emphasized.

Unlike EFTA, the EEC sought to establish free intra-area trade in agricultural, as well as industrial, products and to establish common policies for agriculture. The founders of the Community recognized the special problems of agriculture and made special provisions to deal with them. The Rome Treaty lists the following agricultural policy objectives: (1) increasing agricultural productivity, (2) maintaining a "fair standard of living" for the rural population, (3) stabilizing markets, (4) assuring regular supplies, and (5) maintaining "reasonable" consumer prices.

To achieve these objectives, the Rome Treaty states that Common Market regulations will be drawn up for an extensive list of farm products. (These are listed in Annex II to the Treaty. Article 38 provides that other products may be added to the list by Council vote.) The first EEC Council action toward achieving a CAP came in January 1962, when basic market regulations were issued for grain (except rice), poultry and eggs, live hogs and whole hog carcasses, fruit and vegetables, and wine. This action by the Council was based on an EEC Commission proposal--the Mansholt Plan--but structural policies proposed in the Mansholt Plan and envisaged in the Rome Treaty were left out.

These regulations set the pattern for subsequent regulations for other commodities: rice, beef and veal, and milk and milk products, adopted in December 1963; and fats and oils, a supplementary fruit and vegetable regulation, and the principles of a sugar regulation in July 1966. New regulations for grains, pork, and poultry became effective on July 1, 1967, at the inception of common prices for these products.

A system of price control is the basis of the market regulations. None of the early regulations provide for supply control through acreage or production quotas, but instead rely on price control. All prices for presently regulated commodities are to be unified throughout the Community by July 1, 1968.

The grain regulation--which contains most of the basic elements of the EEC commodity regulations--provides for the establishment of three price concepts which apply to the entire Community. The "target" price (sometimes called the "guide" or "orientation" price in subsequent regulations) is the price which EEC policies attempt to obtain at the wholesale level. A basic target price is set for the area with the greatest grain deficit (designated as Duisburg, Germany). A "threshold" price--or minimum import price at Rotterdam--is also in effect. The "intervention" price--set at 5 to 10 percent below the target price--is the support price (at wholesale) at which designated intervention agencies must buy all the output offered. Except for corn, intervention prices are regionalized, regional prices being derived by subtracting transportation costs to Duisburg. Support buying of grains and other important products, though costly, has created pressure among farm interests for the extension of this type of support to other commodities. In June 1967, the Council decided against support buying for poultry and eggs but established a support price for hogs. Increasing self-sufficiency and lower prices for these products in recent years have added to the pressure for market support.

Variable levies on imports from nonmember countries equal the difference between the Community's threshold price and the lowest adjusted c.i.f. price. Levies on products processed from grains include an extra amount to protect processors. Levies on imports of beef and veal, milk and dairy products, fruit and vegetables, and sugar are

also calculated to make up the difference between internal prices and "world" prices. Levies on conversion products (i.e., pork, poultry, and eggs, which require large inputs of grain) take into account the difference between internal and world grain prices and, in addition, provide a further margin of protection for domestic output.

Some levy and non-levy commodities are subject to customs duties. A few products, which are generally in deficit supply, are imported duty free. The most notable U. S. exports in this category are oilseeds, oilcake and meal, cotton, and hides and skins.

During the agricultural tariff negotiations of the Kennedy Round--in which the six EEC countries negotiated as a unit--the United States did not achieve agreement with the Community on all matters discussed. However, concessions made by the EEC do cover about 60 percent of U. S. dutiable exports, with tariff cuts averaging slightly under 30 percent. Three important U. S. export items covered were tallow, variety meats, and unmanufactured tobacco. Sizable percentage cuts were granted for a number of products, including: dried beans, peas, and lentils; canned poultry; fresh grapefruit; grass seed; raisins; and hops. Small reductions were made for some canned fruit and citrus juices, honey, and numerous other items. Beet pulp was bound duty free. (A binding is a guarantee by a member to other members that the negotiated rate or duty-free treatment will not be changed without consultation.)

The unfinished status of the CAP made the EEC reluctant to make sizable cuts in its level of protection. In fact, one of the EEC's negotiating objectives had been to get negotiating partners to sanction its variable levy and reference price systems. The United States and other grain exporting countries had sought guaranteed access to the EEC grain market. However, the very limited access offer by the EEC led to the abandonment of this attempt. U. S. negotiators did achieve agreement on principles of a new international grains agreement committing the EEC to sharing in a multilateral food-aid program. A new antidumping code was also agreed upon but attempts to negotiate international agreements for beef and dairy products were unsuccessful.

Major existing regulations provide for export subsidies ("export refunds") for some of the commodities covered. These subsidies are designed to offset the difference between market prices in the EEC and those in the importing country and may also allow for transportation and other costs. As an alternative to subsidizing exports, premiums may be paid for diverting products to secondary uses, such as denaturing wheat for use as livestock feed.

Neither the Treaty nor the early agricultural agreements established criteria for aligning the widely varying national prices, except that the unified prices should provide fair incomes for efficient family farms. Much of the CAP was established before decisions were made on common price levels. The first such decision--on grain price unification--was made by the Council of Ministers in December 1964, and became effective on July 1, 1967. It was July 1966 before common prices were set for milk, beef and veal, rice, sugar, oilseeds, and olive oil. These prices--resulting from political compromises--were generally nearer to the highest single country price than to a weighted Community average and, in most cases, higher than proposed to the Council by the Commission.

Soon after common prices were set, some Commission officials predicted that relationships between target prices of certain commodities would have to be adjusted. Failure to do so, they felt, would result in an undesirable output mix and rapidly growing

costs of farm supports. They realized that the only politically acceptable way to make the adjustments was to raise prices of major import commodities, such as feed grains and beef, without increasing prices of commodities in which the Community is self-sufficient. These predictions were realized in October 1967 when agreement was reached to increase target prices of corn, barley, rye, rice, beef, veal, and olive oil. No target prices were lowered (4). 2/ (See table 1 for prices subsequent to these changes.) This one-way adjustment of target prices and consequent increases in threshold prices result in increasing import levies on these products.

The high internal price levels are likely to spur output of some commodities to more uneconomic levels in member countries with a comparative advantage. They will probably stimulate output of grain in France; milk in France and the Netherlands; fruits and vegetables in Italy; and sugarbeets in France, the Netherlands, and Belgium. The major results expected from the 1967 price adjustments are increased impetus to feed grain production and the use of soft wheat in feeding livestock, with a depressing effect on feed grain imports but reduced costs to the European Agricultural Guidance and Guarantee Fund (FEOGA) for supporting wheat prices. It remains to be seen whether an increase in prices of beef (a deficit commodity) relative to prices of milk (a surplus commodity) can reduce the beef deficit without adding to the milk surplus. The predominance of dual-purpose cattle, small farms, and the higher income per acre from milk production than from meat production make this a delicate problem.

Regulations for financing the CAP were adopted in January 1962. FEOGA was created to finance price supports and to subsidize structural improvements. FEOGA obtains its resources from member-state contributions according to a formula established in the Rome Treaty and, increasingly, from import levy revenues. In May 1966, the Council adopted new financial regulations which became effective on July 1, 1967, and will apply until 1970. About half of the funds will come from levies and half from members' treasury donations, according to a revised formula. FEOGA took over complete financial responsibility for executing existing EEC market regulations on July 1, 1967. (10)

Although the CAP covers about 90 percent of farm output, there are still a number of significant issues outstanding. For tobacco, a common policy is planned which may include producer subsidies, support purchases, preferences for imports from African associates, import licenses, and export subsidies. Such a policy, without production controls, might tend to increase high-cost domestic production of low-quality leaf. Currently, imports from the United States are subject only to customs duties, which will be reduced as a result of negotiations in the Kennedy Round. Related problems to be dealt with are the government tobacco monopolies in France and Italy and adoption of common tobacco excise taxes.

Food, plant, and animal health regulations are to be standardized. Regulations now in effect (setting standards for live cattle and hogs; for fresh, chilled, and frozen meat; for seeds and seedlings; and for coloring agents, pesticides, and animal feed residues) set low tolerances for additives and often require identical rather than just equivalent food health standards in the exporting country. In general, existing regulations are more restrictive than those of most other developed countries.

Another important problem not yet resolved is the type of farm subsidies that the member governments will be permitted to

2/ Underscored numbers in parentheses refer to Selected References, p. 52.

Table 1.--Major provisions of the Common Agricultural Policy of the EEC

Regulated commodities	Common price: Effective date	Common price: Product	Common price: Target	Common price: Support level	Common price: Stage	Customs duties	Import certif-icates	Other measures
			Dollars per unit of weight	Percent or dollars				
Grains (Wheat, barley, corn, rye, flour, meal, malt, starch, and feeds)	Aug. 1, 1968	Durum wheat	125/ton	90-95%	Wholesale	No	Yes	Diversion subsidies for bread grains; deficiency payments for durum wheat ($20/ton).
		Soft wheat	106/ton	do.				
		Barley	94/ton	do.				
		Corn	95/ton	do.				
		Rye	98/ton	do.				
Rice (Rice, flour, meal, starch, feeds)	Sept. 1, 1968	Brown rice	.085/lb.	66-68%	Wholesale	No	Yes	Levies refunded on broken rice used for starch production.
Sugar (Beets, refined beet and cane sugar, and syrup)	July 1, 1968	Beets (16% sugar content)	17/ton	1/	Farm	No	Yes	None
		Sugar (refined)	.101/lb.	95%	Wholesale	do.	do.	
Dairy 2/ (Milk, dairy products)	June 1, 1968	Milk	4.42/cwt.	None	Farm	No	Yes (for milk, cream, butter)	Consumer and diversion subsidies.
		3.7% butterfat	4.67/cwt.	do.	Dairy	do.		
		Butter	None	80/cwt.	Wholesale	do.		
Poultry (Live poultry, meat, offals, fat)	July 1, 1967		3/	None		No	No	Trade subject to sanitary and veterinary regulations.
Eggs (Whole and processed eggs--except egg whites)	July 1, 1967		3/	None		No	No	None
Pork (Live hogs, pork, sausages, offals, and lard)	Nov. 1, 1967	Slaughtered hogs	4/	4/	Wholesale	No	No	Trade subject to sanitary and veterinary regulations.
Beef and veal (Live cattle; fresh, chilled, frozen meats and preparations)	June 1, 1968	Cattle	30.84/cwt.	93-96%	Wholesale	Yes 5/	Yes 6/	Trade subject to sanitary and veterinary regulations.
		Calves	41.50/cwt.	do.		do.	do.	
Fruit & vegetables (Excludes tropical fruit, & potatoes)	Jan. 1, 1967		7/	40-70%	Wholesale	Yes	Yes	Quality standards.
Fats and oils (Olive oil; colza, rape, & sunflower seed; oilcake; marine oils; margarine)	Nov. 1, 1967	Olive oil	1,152/ton	730/ton	Farm	Yes (except olive oil & duty-free items)	Yes	Producer subsidies for olive oil and oilseeds.
	July 1, 1968	Oilseeds	202/ton	196/ton	Farm			

1/ FEOGA guarantees the target price up to 105 percent of quotas, and $10 per ton up to 135 percent. 2/ Final details of these regulations are not completed. Prices and policies outlined in this table are based on earlier decisions and are subject to change before the establishment of a single market in these products (scheduled for June 1, 1968). 3/ Prices supported indirectly by levies. 4/ A "basic" price of $33.34 per cwt. has been set for slaughtered hogs. Support purchases take place at levels 8 to 15 percent below this price. 5/ Supplementary to levies. 6/ Mandatory for frozen beef. 7/ A wholesale target price is also set at a level insuring the sale of all output.

grant beyond those provided under the CAP. A decision on this is necessary to put farmers in all six countries on an equal competitive footing. Indications are that many national subsidies will be allowed to continue.

A combination of area-wide competition for agricultural markets, reasonable domestic prices, emphasis on structural programs, and less protective trade policies could do much to improve the allocation of agricultural resources and make agriculture in the EEC more efficient and productive. However, if the emphasis remains on maintaining high internal prices backed up by protective trade policies, marginal farmers will remain in farming, the structural problem will remain, self-sufficiency will be likely to increase, and EEC consumers will continue to pay high food prices. Surpluses may increasingly become a problem for dairy products, sugar, and soft wheat. The United States and other exporters may find themselves blocked from other EEC markets as they have been from the market for whole broilers. In the long run, the isolation of agriculture from the corrective mechanism of world prices is not in the best interest of the EEC. Heavily subsidized uneconomic production, with scarce resources remaining in the farm sector as a result, would constitute a drag on the economic health of the Community.

The EEC has formed special trade and economic relationships with a number of countries; other countries are seeking such arrangements. Greece, in November 1962, and Turkey, in December 1964, became associated with the Community under agreements providing the possibility of full membership following long transitional periods during which the two countries will establish a customs union with the EEC. Their agriculture will be gradually integrated into the CAP. Immediate concessions on major agricultural exports of the associates included increased quotas, diminishing tariff rates, or a combination of both. Greece and Turkey granted concessions on agricultural and industrial imports from EEC countries.

Eighteen African states--former overseas territories--also enjoy special economic and trade benefits under the Yaounde Convention of 1964. Provisions for the gradual abolition of quotas and tariffs in intra-EEC trade were extended to the 18 associated African states. In addition, many tropical products enter duty free. The associated states are consulted on CAP developments affecting their trade interests. In return, the associated states must progressively abolish duties and restrictions on imports from the EEC, subject to certain safeguards for their economies. The Yaounde Convention must be renegotiated by May 31, 1969.

Other countries which have applied for membership or some form of association include the United Kingdom, Denmark, Norway, Sweden, Austria, Spain, Israel, Morocco, and Tunisia. Israel has a most-favored-nation agreement with the Community under which it receives tariff reductions of 10 to 40 percent on 21 industrial and agricultural export items, including some fresh and processed fruit and vegetables. An association agreement providing for a close trade relationship with Nigeria has been drafted for some time but has not been ratified. Negotiations with Austria have settled some points including transitional trade arrangements. The United Kingdom has submitted anew its formal application for membership. If the United Kingdom eventually joins, other EFTA countries and Ireland may also be admitted to membership or association.

A consultation procedure has been adopted for negotiation of bilateral trade agreements between individual member and nonmember countries. An agreement of January 1963 provides that in bilateral agreements with countries having state-trading

monopolies, the estimated volume of trade may be included but cannot be construed as binding. The 1963 agreement also extended the levy system to imports of major grains and livestock commodities from state-trading countries. Regulations also provide that if imports from these countries exceed imports in previous years by a certain amount and threaten a "grave" market disturbance, such imports may be suspended.

Trade concessions to less-developed countries consist primarily of those granted on a reciprocal basis to associated countries and territories in Africa, as previously outlined. The EEC Commission concluded from a study completed in 1966 that the EEC should endorse global trade preferences on an item-by-item basis for the manufactures and semi-manufactures of less-developed countries, with certain reservations.

Many nonagricultural developments will have an effect on Common Market agriculture. In 1966, the first 5-year economic program for the EEC was adopted. This program is a departure from the previous year-to-year establishment of economic guidelines. The program stresses the development of backward regions within the Community and increased coordination of economic and social policies--measures which could significantly affect agriculture.

The planned adoption of common investment, taxation, transportation, and social welfare policies will have a substantial impact on Common Market agriculture, while reducing competitive barriers between countries in all sectors.

In July 1966, an annual ceiling of $285 million was placed on FEOGA expenditures for structural improvements of EEC agriculture. This expenditure on structural improvements is dwarfed by the expected $1.2 billion to $1.3 billion to be spent in 1967/68 for market support and export subsidies. A consultation procedure has been established to coordinate structural programs financed by the member states.

The Community provides economic aid to less-developed associated countries through two of its institutions. The European Development Fund (EDF) provides technical assistance and grants about $150 million annually for projects in associated overseas countries and territories. The European Investment Bank (EIB) makes loans ($149 million in 1965) for development projects in the EEC and associated countries and territories.

Belgium

Agricultural policy in Belgium is undergoing significant changes in adapting to the EEC's Common Agricultural Policy. Belgian policy stresses structural improvements in agriculture to increase the income of efficient farmers and to meet increasing competition in both the domestic and European markets. Over 80 percent of Belgian agricultural exports go to Western Europe, including more than two-thirds to other members of the Common Market. About 40 percent of the agricultural imports come from Western Europe; 80 percent of these imports are from other EEC countries.

The large number of small, fragmented farm holdings in Belgium is one of the problems that make it difficult to achieve parity income and improve the competitive position of agriculture. Slightly more than half of all farms are smaller than 5 hectares; about a third of the farms are operated on a part-time basis.

Land consolidation is assigned to a semigovernmental institution, the National Society of Small Landed Property (SNPPT). This organization has been mainly engaged in surveys and in improving living conditions

for low-income farmers. At the end of 1966, only slightly over 12,000 hectares of the planned 87,000 hectares had been consolidated.

Regional economic development programs, introduced in 1959, have contributed to improvements in farm structure. Although the policy does not apply directly to agriculture, it has influenced the sector indirectly by opening up additional industrial employment.

In recent years, the Government has adopted several new programs aimed at improving agricultural productivity. In 1961, the Government established Agricultural Investment Funds to assist farmers in obtaining long-term, low-interest loans to purchase machinery and make farm improvements. In 1965, the Government created the Agricultural Reorganization Funds to assist in the transfer of holdings operated by retiring farmers.

There has been a tendency in recent years for semigovernmental agencies such as the National Institute of Agricultural Credit, the National Office of Agriculture Trade (ONDAH), the National Office for Milk and Dairy Products (ONL), the Supply Regulatory Agency (OCRA), and the Institute for the Improvement of Scientific Research in Industry and Agriculture (IEA) to adopt programs aimed at improving the production, quality, marketing, and distribution of agricultural products.

Contrary to the situation in most European countries, the gap between farm and nonfarm income in Belgium has narrowed in recent years. Agricultural production has increased at about the same rate as industrial production, while the farm population has been declining about 7 percent annually and the number of farms by over 3 percent.

Belgium supplies two-thirds of its own foodstuffs but the value of its agricultural imports (including transshipments) still exceeds $1 billion. While imports of edible livestock products are small and are usually exceeded by exports of eggs and pork, the country depends heavily on imports of cotton, grains, oilseeds, feed concentrates, and fats and oils.

The United States supplies a large share of Belgian agricultural imports. When transshipments are included, the Belgium-Luxembourg Economic Union (BLEU) is the eighth largest dollar market for U. S. agricultural products and the third largest on a per capita basis. The major U. S. agricultural export to BLEU is feed grains, followed by soybeans and soybean products. BLEU tariffs have been moderate, but the EEC's common grain policy may have a depressing effect upon feed grain imports from nonmember countries.

France

France's agricultural policy is greatly influenced by the relative importance of its agricultural production within the EEC, as well as in Western Europe as a whole, and by its large volume of agricultural trade. France is Western Europe's leading producer and exporter and third-ranking importer of agricultural products. During 1963-66, France's agricultural imports averaged $2.6 billion; the deficit in agricultural trade (customs basis) averaged close to $1 billion.

France is currently engaged in improving its competitive position to take advantage of the enlarged market for agricultural products provided by the EEC. To help achieve this aim, the French Government is concentrating on measures to provide greater efficiency in the production, processing, and marketing of agricultural products.

The Fund for the Direction and Regulation of Agricultural Markets (FORMA), organized in July 1960, is the main financial

institution for market regulation for all commodities except grain and sugar. FORMA activities in regulating the market and in helping direct agricultural production include the purchase, sale, storage, and importing and exporting of agricultural products. Operations are financed primarily through government funds. FORMA operations are carried out mainly through a number of private organizations concerned with commodities or commodity groups, such as the agencies in livestock red meat (SIBEV), dairy (INTERLAIT), and potatoes (SNIPOT).

Two basic laws provide measures aimed at improving efficiency in agriculture. The Agricultural Orientation Law of 1960 sets a general objective of parity income for farmers. This is to be achieved through increases in agricultural productivity. The "Complementary Law," adopted in 1962, encourages contractual relationships between producers and dealers or processors to provide the quantity and quality of processed agricultural products necessary to meet effective demand. The law also provides for the formation of producer groups, organized on a commodity or regional basis. Each producer group has committees for enforcing those regulations which are adopted.

According to the 1963 census, almost one-half of the 1.9 million farms in France were smaller than 10 hectares. Because of small size and insufficient capital, these farms cannot efficiently utilize modern techniques.

The Agricultural Orientation Law of 1960 established semipublic (SAFER) companies modeled after the Tennessee Valley Authority to implement land reform and other improvements in rural areas (15). There are now seven SAFER companies operating in France. The SAFER companies have preemptory rights in the purchase of small, fragmented farms placed on the market and must improve and resell within 5 years any land they purchase. These organizations also have been redeveloping abandoned farmland. By mid-1965, the SAFER companies had returned to crop production about half of the 100,000 hectares of abandoned land that they had purchased.

Structural reform is also an aim of the Social Action Fund for the Improvement of Agricultural Structure (FASASA). Special benefits are given to aged farmers to encourage retirement. Allowances and loans are granted to farmers migrating from Western France, an area with a high density of agricultural population, to Central and Southern France. Other activities supported by FASASA include vocational training grants to farmers and their sons who are not needed in agriculture and providing assistance to farmers whose continued presence in depressed areas is desired.

France produces large surpluses of certain agricultural products. Wheat has been the major surplus problem but recently dairy products and broilers have been in surplus supply. France has further potential to increase agricultural production in the years ahead. Official French sources expect France to produce 10 to 12 million metric tons of grain over and above domestic needs by 1970 (14). About one-third of this surplus is expected to be in soft wheat which under the CAP is eligible for subsidies if used as livestock feed or if sold to nonmember countries. Disposition of the French grain surplus could have an important impact on U. S. feed grain exports to other EEC members, which in 1966/67 totaled 6.5 million tons, largely corn. A major shift toward feeding more grain to livestock could, however, substantially reduce the French grain surplus. U. S. exports of wheat to the EEC are largely hard grain varieties and thus face little competition from the soft French wheat.

France has been aggressively seeking enlarged foreign markets for its agricultural exports, particularly wheat. Trade policy is being directed toward domination of the European market, particularly within the EEC which now accounts for about 40 percent of France's agricultural exports. Market promotion, particularly overseas, is carried out chiefly by the Society for the Promotion of Agricultural Exports (SOPEXA). France uses export subsidies to dispose of its agricultural surpluses. In 1965, direct subsidies on agricultural exports amounted to $320 million, of which the National Cereals Board alone paid $200 million in subsidies on wheat exports. The treasury is reimbursed by FEOGA for subsidies paid on products for which subsidies are provided under EEC regulations.

France's policy on agricultural imports from non-EEC countries is very protective. Imports are often restricted by quotas which can be varied according to market needs. Levy systems have been substituted for customs duties under the CAP for all the previous trade restrictions on grains, dairy products, pork, poultry, and eggs. Imports of fruit and vegetables are subject to the minimum import price system of the EEC. State trade organizations have been regulating imports of oilseeds, oilseed products, and tobacco. However, France has allowed liberal imports of oilseeds and products, variety meats and citrus since domestic production has fallen considerably short of requirements. Other nontariff restrictions on agricultural trade include strict meat inspection and animal disease regulations.

Agricultural output is expected to increase at a rate of about 3.5 percent per year during the Fifth Development Plan (1966-70). This planned rate of increase in output is lower than the rate achieved in recent years. Much of the increase in agricultural output during this period will be the result of increased inputs. This plan, like the Fourth Plan, calls for a further increase in exports of agricultural products. To gain new markets, one Fifth Plan objective is to supply better quality products at competitive prices. The Plan also offers producers three suggestions: increase production of beef, which is in short supply on the European market; concentrate on quality wheat and certain other grains; and increase feeding of domestically produced grains to livestock. To reduce the disparity between farm and nonfarm income, the Fifth Plan calls for an increase of 4.8 percent annually in farm income, compared with a 3.3 percent increase in the industrial sector (13).

West Germany

West Germany has had the highest price level for agricultural products of any EEC country and much of the present policy is geared to adjusting the existing price structure to the CAP. Thus, producer prices for wheat, rye, barley, pork, eggs, and poultry are expected to fall over the next few years. While net income from the sale of grains will probably decline, producers are to be compensated through 1969 by the EEC's Agricultural Guidance and Guarantee Fund for losses resulting from grain price reductions. Lower feed grain costs should prevent any reduction in the net income from the sale of hogs and poultry. With high import restrictions and rising consumption of beef, income from beef production is likely to increase. High milk prices in West Germany--as throughout other areas of the EEC--have resulted in a burdensome accumulation of butter stocks. As a consequence, the milk sector is being reviewed prior to unification under a single price system.

As is typical of industrialized countries, the goal of West German agricultural policy, delineated by the Agricultural Act of 1955, is to improve the social and economic position of the agricultural community, including the

narrowing of the disparity between farm and nonfarm incomes. The economic situation of agriculture, especially of farm income, is analyzed annually in the Report on the Situation of Agriculture ("Green Report"). Together with this report, the Government submits to Parliament the "Green Plan" which indicates the measures which have been or will be taken to improve the agricultural economy. Financial support for agriculture is either in the form of direct subsidies on prices and inputs, or in the form of fiscal and social measures.

In July 1965, the West German Parliament passed the "Law to Promote Integration of West German Agriculture in the Common Market." It provides for annual subsidies of $257 million through 1969. These funds, reduced by a later austerity law (to $192.5 million in 1966 and 1967) are in addition to expenditures on current "Green Plan" assistance programs (about $587 million in 1966 and $432 million in 1967). These additional expenditures, through the "Green Plan" mechanism, are intended to ease the transition to the CAP.

Principal problems of German farming are the small size of farms, the location of farm buildings in congested villages, and the obsolescence of these buildings, as well as land fragmentation. Over two-thirds of all farms are less than 10 hectares. This hinders the efficient use of modern equipment, and even with most intensive operations, does not provide sufficient income.

Small farm size, however, does not necessarily mean a low standard of living. Over 43 percent of all holdings recorded as farms obtain the major part of the income from nonfarm sources; an additional 22 percent receive some income from sources outside agriculture, while only 35 percent of farm operators derive their entire income from farming. In the size group below 5 hectares (about 50 percent of all farms), only 3.5 percent of the operators derive all of their income from farming. Part-time farming, often a transitional step away from agriculture, has become an accepted way of life in some areas.

Measures carried out through the Green Plan fall into four main categories: (1) programs aimed at improving agricultural structure, (2) credit programs, (3) measures to rationalize production and improve quality, and (4) social measures.

Structural improvement will be slow and costly. Programs of this type include the consolidation of scattered plots (usually carried out for a whole village at one time), the transfer of farmsteads out of congested villages onto consolidated land holdings, and the general enlargement of farms through land purchases. The Government subsidizes interest rates to encourage borrowing of capital to carry out approved projects. The degree of subsidization of the interest rate and the amount of capital covered by such subsidies vary by project.

Assistance is given directly by the National Government and the States to farmers to improve the quality of livestock and crops and for research and advisory services by State research stations, university institutes, and private researchers. Educational programs are supported through financial grants, and advisory work is now concentrating on farm management problems. Social measures include support payments for an old-age pension program for farmers and for accident and rehabilitation insurance.

Tax relief has been provided through income tax write-offs for agricultural investments, the exemption of agricultural cooperatives from corporate and property taxes, the general exemption of farmers, dairies, and mixed-feed producers from the turnover tax,

and the exemption of tractors from the tax on motor vehicles.

German farmers are highly organized. The Central Committee of German Agriculture coordinates the activities of the various organizations. The German Farmers' Association represents practically all farmers on questions of agricultural policy and legislation. The Federation of Cooperatives includes agricultural cooperatives and agricultural credit organizations, and the German Agricultural Society specializes in improving production techniques and training. There are a number of smaller, specialized organizations such as those for farm youth, farm women, plant breeders, livestock breeders, and producers of special commodities such as sugarbeets, wine, potatoes, and forest products. None of the organizations are closely affiliated with political parties.

Efforts to achieve self-sufficiency as a precaution against the possible curtailment of foreign supplies during times of emergency led to a Government program of high price supports and protection of farmers against lower-priced imports. Prior to the adoption of EEC regulations, German agriculture was protected by high import tariffs and quantitative restrictions; about three-quarters of German farm production was protected by import quotas. However, West Germany has long been the largest importer of agricultural products in continental Europe. It is one of the most important markets for U. S. agricultural exports.

The Kennedy Round negotiations failed to remove substantial trade barriers in a number of important trading commodities. For example, the market for grains, accounting for a large percentage of U. S. agricultural exports to West Germany, remains protected. However, a significant EEC concession in tobacco is expected to result in an increase in U. S. exports to West Germany.

Although agricultural production has increased by 50 to 60 percent since 1950, domestic production still accounts for only about 70 percent of domestic requirements. Imports from countries not in the EEC, including the United States, provide about two-thirds of the agricultural import requirements. The share accounted for by EEC member countries has been increasing. With protective EEC external trade policies, the United States must expect increasing competition from within the Community for the West German market.

Italy

Rapid industrial development and rising incomes in recent years have caused domestic farm output to lose ground to imports in the satisfaction of the increasing domestic demand for food and fiber. Integration into the Common Market has placed additional pressures on Italian agriculture. Compared with other EEC countries, Italian farm costs are high and productivity is low. Within Italy, these problems are complicated by the great regional dichotomy between the relatively prosperous northern and central regions and the less prosperous southern region which faces many of the agricultural difficulties found in other Mediterranean countries.

Three basic objectives of Italian agricultural policy laid down at the outset of the 5-year plan that commenced in 1961 (the first "Green Plan") have not changed significantly: (1) to adapt agriculture to better meet domestic and foreign demand; (2) to raise farm incomes; and (3) to reduce the regional inequalities between north and south. The first objective is being sought through attempts to increase production, to improve the composition of agricultural output, and to improve the marketing system. The second is being sought through price intervention under the framework of the EEC, and through policies designed to create viable family

farms. The last objective of reducing the disparity between the economic development of southern and northern Italy will depend largely upon the success of the Southern Development Fund and other coordinated economic development programs.

Italian agricultural policy is based on the assumption that a long-run solution to the nation's agricultural difficulties must include restructuring farms. Consolidation of very small farms, at present excessive in number, would increase the average size of farms. On the other hand, the redistribution of land now in disproportionately large farms is expected to result in an increase in the number of more intensive and productive farms. However, progress in improving the structure of Italian agriculture has been very slow. Over 76 percent of all farms in the early sixties were less than 5 hectares, little changed from 1930 when 79 percent were less than 5 hectares.

In the past, both consolidation of very small holdings and expropriation of large estates have been used to improve the average size and the viability of farms. It appears from present programs that the idea of expropriation has been abandoned and consolidation efforts have been curtailed. However, greater stress on consolidation is being considered as the pattern of future policy, even to the extent of compulsory measures in some cases.

Progress toward achieving Italy's long-run goals has been made in the past decade or so, but the improvements which have occurred in agriculture are largely due to growth in other sectors of the economy and in other European countries and to the resultant siphoning off of much surplus Italian farm labor. Employment in agriculture has fallen sharply in recent years, and as a result, labor productivity has risen more rapidly than in industry. Agricultural employment now accounts for about 25 percent of the total labor force. Seasonal unemployment is still a problem.

Increases in farm prices have been confined largely to commodities such as meat, fruits, and vegetables. Despite rising prices, agricultural imports have increased. The most rapid increases in agricultural imports have been in those commodities which compete with Italian production: meat, feed grains, dairy products, and natural fibers.

These trends indicate a lack of flexibility and competitiveness in Italian agriculture which has become especially significant with the integration of Italy into the Common Market. Because in many cases Italian farm prices have been higher than those adopted by the EEC, a variety of devices are permitted to ease transition. Crops of special significance to Italy, for example olive oil, were given special treatment (a contribution of $8 million was granted from FEOGA for the 1964/65 marketing year). Most of Italy's agricultural products are now under EEC regulations but various subsidy systems are still in use.

Subsidies are provided for a variety of farm inputs. Tax exemptions are allowed for fuel used in agriculture, grants are provided for certified seed purchases, and subsidies are in effect on fertilizer and greenhouse construction.

The current economic development program for 1966-70 (the second "Green Plan") seeks to reduce the disparity in income between agriculture and other sectors from the present 47 percent to 40 percent by the end of the plan. This is to be achieved by more intensive farming in areas where resources permit and by a reduction in labor inputs in other areas.

The plan calls for increased production of those commodities for which demand is strongest and prices have increased most: meat, fruit, and truck crops. Livestock production is to be emphasized in the northern regions and truck crops, fruit, wine, and vegetable oil in the south. The latter efforts are to be facilitated by increased irrigation and better marketing and processing facilities. Livestock programs adopted in 1964 and 1965 include Government-financed disease control measures, subsidies on imported cattle, construction of livestock shelters, increasing the supply of feedstuffs, expansion of the sheep and poultry raising industries, and subsidizing cooperatives for processing livestock products.

Regional development programs are of three major types: (1) public works programs concentrated in the north and central regions; (2) land conversion and improvement programs that are Government-supported private efforts; and (3) programs designed to carry out irrigation, forestation, road building, and electrification ventures in mountainous regions and the promotion of cottage crafts.

Italian agricultural trade policy and practice has changed as a result of EEC membership. Even under EEC regulations, however, imports of such commodities as wheat flour, sugar, milk, butter, beef cattle, beef, pork, certain types of fruit, and wine from non-EEC member countries currently are subject to approval by Italian Ministers. Other nontariff trade barriers include quotas, limiting ports of entry and monopoly purchasing.

During 1965-67, agricultural exports averaged about $800 million, but agricultural imports averaged $2.4 billion. This gap in Italy's agricultural trade more than accounts for the deficit in total trade, and it is this condition which the Government seeks to reverse through its trade policies and its domestic agricultural policy. The Government is especially concerned with the increasing imports of livestock products and feed grains, and is striving to stimulate domestic production of these commodities.

As anticipated, Italy's integration into the Common Market has resulted in the member countries of that organization taking a larger share of Italy's exports, now about one-third. The United States is Italy's largest trading partner after West Germany, accounting for about 9 percent of Italy's exports and 13 percent of her imports. Italy still maintains bilateral trade agreements with more than 40 countries.

In the Kennedy Round negotiations, the EEC as a group agreed to tariff reductions on a variety of agricultural products which the United States exports to Italy. Major commodities include tobacco, tallow, and variety meats.

Netherlands

Agricultural policy in the Netherlands has been strongly influenced by membership in the EEC. Policies to improve farm structure and marketing are aimed at strengthening the competitive position of Dutch agricultural products in the EEC by increasing efficiency. Agricultural products represent about 30 percent of total Dutch exports to the EEC. Agricultural exports to EEC countries have increased from $437 million in 1955 to $1.1 billion in 1966. About 59 percent of total agricultural exports were destined for EEC member countries in 1966, increasing from about 42 percent in 1955.

The average size of Dutch farms is 7.5 hectares, slightly smaller than the EEC average. Objectives of structural policy are to reduce the number of small farms and to improve existing units. An Agricultural Development and Rationalization Fund, managed

by the Government and the farmers' organizations, provides financial help for construction and improvement of farm buildings where sizable investments are necessary and for programs to lower production costs. A "discontinuation scheme" helps farmers who are over 50 to leave farming by offering them the market value of their farm and a premium equal to 10 times the lease value of their property, plus a lifetime pension. Disposition of the property acquired under this scheme is the responsibility of the Foundation for Land Administration.

Land consolidation and the creation of larger farms has been slow in the Netherlands but more progress in this area is now being made. The number of holdings of 1 to 10 hectares has been decreasing, but holdings of 10 to 20 hectares (which comprise a third of all farms) have increased. Although there have been annual increases in labor productivity (due to increasing mechanization and the departure of farmers' sons from the land), Dutch farms remain highly labor intensive.

The size of commercial poultry and livestock operations has been increasing rapidly in recent years. The relaxation of size restrictions appears to be in anticipation of a rising export potential in the EEC markets. In May 1966, almost 40 percent of all hens were in flocks numbering more than 100, compared with 23 percent 2 years earlier. About 35 percent of all broilers were raised in commercial operations with over 10,000 birds in May 1966; the number of such operations had increased from 293 in 1964 to 603 in 1966. Although less pronounced, increased concentration is also occurring in the production of livestock. Between 1964 and 1966, the number of farms keeping over 50 head of hogs increased by 32 percent. Farms feeding more than 50 veal calves accounted for 66 percent of the total number in 1966 compared with 40 percent in 1964.

For most commodities, farm income is supported by marketing arrangements rather than direct payments and subsidies. Certain subsidies are maintained to lower the costs of inputs to farms producing for export. The dairy industry, however, is heavily and directly supported due to its importance in the agricultural economy. (Half of dairy production is exported.)

The Netherlands is the major cheese exporter in the EEC. Exports to other EEC countries were 83,000 tons in 1966, an increase of 12 percent over the previous year. Dutch efforts to develop new non-EEC markets are largely the result of the loss of traditional markets (mostly Asian, including Burma, Thailand, and the Philippines). These efforts are aided by EEC export subsidies. A subsidy on milk for manufactured use is designed to keep butter prices low and thereby stimulate domestic consumption. It is likely to be discontinued during 1968. The Government has suspended support arrangements for skimmed milk powder, and cheese production may be stimulated as a result.

Although during 1966/67 prices were unfavorable for Dutch poultry raisers, producers maintained high incubations during periods of low export prices to maintain a firm market in the EEC upon full liberalization of intra-EEC poultry trade in July 1967. The Dutch are hopeful that their competitive position will improve, particularly against poultry produced in France and West Germany. Poultry production rose to 240,000 tons in 1966 from 70,000 tons in 1958. Germany has been the principal market, taking 71 percent of Dutch poultry exports in 1966.

Generally, there has been a trend toward liberalization of import restrictions in the last decade, and virtually all quantitative controls have been abolished. However, the high import levies on grains, established under the CAP system, have resulted in some

internal price and production changes. The pricing arrangements for wheat under the present regulations have resulted in an increase in flour and bread prices. Consequently, a consumer subsidy on bread was maintained, but was scheduled to be abolished on June 1, 1968. All national export subsidies on wheat have been replaced by an EEC subsidy. However, national subsidies could be reestablished since export subsidies are periodically reviewed. Meanwhile, virtually all Dutch wheat exports have ceased. Since the inception of the CAP, feed grain prices have risen substantially, and there has been increasing use of grain substitutes and protein meals (feeds with a low or zero import charge). (22)

The United States is the major supplier of feed grains to the Netherlands, particularly of corn which is used increasingly in compound feeds. Also, U. S. exports of oilseed meal and of soybeans and other oilseeds have increased because of higher demand for protein supplements. Second only to Germany in the EEC in the production of compound feeds, the Netherlands has increased production sharply along with increased production of livestock products and poultry.

Trade liberalization in the EEC has enabled the Netherlands to supply the EEC countries with an increasing amount of horticultural products, particularly onions, tomatoes, and cucumbers. About 60 percent of the vegetables produced are grown under glass. About 40 percent of Dutch vegetables are exported--three-fourths to other EEC countries, particularly West Germany. Horticultural production represents about 20 percent of gross agricultural output. However, there is no direct public intervention in horticulture, through subsidies or other forms of aid. Licensing is controlled by the Fruit and Vegetable Board. Horticultural products are sold competitively at auction centers with minimum prices established by a Central Bureau. A reserve fund composed of payments by the producers compensates sellers for unsold produce. Produce is withdrawn from the market if the minimum price is not reached at auction.

The Commodity Boards in the Netherlands perform an essential role in the implementation of agricultural policy for the principal commodities. They function as autonomous bodies with public authority. There are 13 boards handling those aspects of policy relating mainly to marketing and trade, including the regulation of import and export licenses, the fixing of levies on trade, and the granting of export refunds.

EUROPEAN FREE TRADE ASSOCIATION

The European Free Trade Association (EFTA) was formalized in May 1960 following the signing of the Stockholm Convention in January of that year. The "Outer Seven," as these nations are sometimes called, were concerned that the creation of the EEC with its common external tariffs would disrupt trade. The purpose of EFTA is to eliminate barriers to industrial trade and to encourage trade in agricultural and fishery products. On December 31, 1966, 3 years ahead of the date set in the original timetable, tariffs on manufactured goods were eliminated by the seven member countries. In addition, Finland's tariffs on imports of manufactured goods from the EFTA were eliminated at the end of 1967. (Finland became an associate member of EFTA on June 26, 1961.)

Much of EFTA policy is aimed at facilitating an eventual merger with the EEC, but unlike the EEC no common agricultural policy

is planned for EFTA; agricultural trade has not been liberalized in EFTA as in the EEC. Agricultural products are exempt from most of the provisions applied to manufactured products. The Convention does require that each member of EFTA protect agricultural exporters in EFTA from dumped or subsidized agricultural imports from non-EFTA sources. Similarly, it establishes guidelines for eliminating members' agricultural export subsidies when these are injurious to other members. (A Council decision in 1964 formalized the procedure.) The Convention also requires that the tariff concessions granted in bilateral agricultural agreements between EFTA countries must be extended to all members. It promises reciprocity in the form of agricultural trade concessions to members whose economies depend to a great extent on agricultural exports in return for liberalization of trade in manufactured products to members whose economies depend on those products. Finally, the Convention requires that agricultural policies of members take into account the interests of EFTA's agricultural exporting countries and traditional channels of trade, and requires that the Council, EFTA's decision-making body, annually review the development of agricultural trade within EFTA.

EFTA has liberalized agricultural trade among its members to some extent by two principal means: (1) treating some agricultural commodities as manufactured goods, and (2) encouraging bilateral agreements between members. Council decisions relative to the first of these means have removed a small number of agricultural products--of minor importance in trade--from the exempted agricultural list. Liberalization of agricultural trade through bilateral agreements has also been limited to a few minor products, although there are exceptions, such as elimination of duties on butter and bacon from other EFTA countries by the United Kingdom, and Swedish treatment of wines (mostly Portuguese) as manufactured products.

Nontariff provisions of the bilateral agreements do not have to be extended to the other EFTA countries. Many of the agreements raise import quotas for certain goods, commit one government to encourage its importers to deal with another country's exporters, and provide other benefits. They generally provide for a joint commitee of representatives of the two governments to study and discuss common agricultural interests.

Austria

Austria's agricultural program has promoted the development of viable farm units, but discouraged the outflow of labor. Farm productivity has been increasing at a rate of 6 percent a year since 1960, but a wide gap between farm and nonfarm incomes still prevails.

The main instruments of Austria's agricultural policy are the Marketing Law of 1958 and the Agricultural Law of 1960. Under the former, three marketing boards regulate trade in bread grains, milk and dairy products, and livestock and meat. The Agricultural Law provides measures to improve the efficiency and income of farmers on the basis of the "Green Reports" and "Green Plans." The Green Reports give an annual assessment of the economic situation in agriculture, while the Green Plans recommend measures to be financed from the budget which are deemed necessary to fulfill the objectives of agricultural policy.

There has been some progress in achieving policy objectives since 1960, especially in the improvement of the structure of agriculture. Consolidation of landholdings increased from about 16,000 hectares annually during 1951-60 to 23,000 hectares in 1964.

Along with its policy to increase the size of landholdings, the Government has initiated a far-reaching program to improve the structure of the entire agricultural economy. Special funds have been allocated to local authorities for use in improving the infrastructure of rural areas, with emphasis on new roads, drainage systems, and electric power facilities.

Austrian agricultural price policy affects both the factors of production and the main agricultural products. Subsidies are granted for various purposes and in various forms. For example, farm construction is assisted by low interest credit. Transportation costs of feed grains, seeds, straw, and fertilizers--particularly to mountain farms--are also subsidized by Government funds.

Prices for wheat, rye, milling products, various kinds of bread, sugar, and milk and milk products are determined by a price commission. The functions of the three marketing boards are to insure nationally uniform producer prices as well as retail prices for milk and bread grains and to guarantee regular and sufficient deliveries of milk, bread, and meat to the consumer. Based on the proposals of the boards, the Ministry of Agriculture and Forestry draws up programs to regulate the export and import of live animals, meat, and cereals.

Despite subsidies, price regulations, and increased productivity, the gap between farm and nonfarm income remains relatively stable. Basic to this problem is the low income of farmers in mountain areas. The Government has made some effort to improve this situation by encouraging new industries to locate in rural areas and subsidizing them. The long-range objectives are to increase off-farm earnings as well as to decrease the rapid outflow of young farm laborers.

Austria has two unique programs that contribute to the growth and stabilization of farm production and the improvement of agricultural marketing. One program is designed to increase domestic consumption. This is partially implemented through the efforts of consumer information services and Government publications. Special campaigns, for example, have been started to encourage fruit and fruit juice consumption. Milk consumption has been encouraged by the sale of milk at reduced prices in factories and offices. The goal of the other program is to even out seasonality in the supply of agricultural products. Under this scheme commodity dealers whose stocks exceed the normal level are reimbursed for the excessive stocks held, storage losses, and other costs associated with storage. In some years, subsidies have been paid for denaturing surplus wheat.

Major items imported are fruit and vegetables, feed grains, and edible vegetable oils. Austria agreed to tariff reductions on imports of leaf tobacco and cigarettes during the Kennedy Round of trade negotiations. The largest export items are live cattle and dairy products. Austria has been emphasizing livestock farming and is currently one of Western Europe's major exporters of live cattle. To maintain this position, Austria's imports of feed grains have increased. Thus, while entry into the Common Market would be beneficial to Austria's export program, adoption of the EEC's common external tariff and variable levies would raise the cost of Austria's feed grain imports.

In current and future policy decisions concerning special arrangements with the Common Market, Austria must weigh its need to maintain commercial relations with Eastern Europe. Both East and West are important to Austria. The EEC is a sizable importer of Austria's farm exports and Eastern Europe is becoming an increasingly important

supplier of many basic commodities, particularly feed grains.

Denmark

Denmark is heavily dependent upon agricultural exports for foreign exchange earnings. Despite the increasing diversion of resources to manufacturing, and the rising significance of industrial exports, two-thirds of Danish agricultural production is exported, accounting for approximately 40 percent of total export value. Internal agricultural policy has traditionally been flexible in Denmark--there are no income or production targets directly negotiated between the Government and agricultural organizations--and the many aspects of policy relating to price supports, trade, and structural improvements are directly or indirectly responsive to the composition and direction of agricultural trade.

Difficulties in export markets and the growing income disparity between the farm and nonfarm sectors have led to legislation in support of agriculture. The Grain Marketing Act of 1958 promoted a self-sufficiency policy for bread grains by providing minimum import prices, guaranteeing producer prices, and requiring millers to use domestic grains of satisfactory quality when available. However, legislation adopted in 1965 discontinued guaranteed producer prices for bread grains as of the harvest year 1966/67. Instead, wheat and rye producer prices, as in the case of feed grains (including wheat and rye for feed), are now protected by minimum import prices as the principal means of support. Producers feel that minimum import prices afford little support since only small quantities of milling-grade wheat and rye are imported and the minimum import price for these is the same as for feed wheat and feed rye. Consequently, the area sown to bread grains has declined sharply. The Government annually reviews the supply potential and introduces import embargoes on wheat, rye, barley, and oats when domestic supplies are adequate.

Denmark's grain import requirements fluctuate because of weather and variations in utilization of feed grains caused by changes in demand for livestock products. Prospects for increased feed grain imports are favorable, as foreign and domestic demand for pork products has been rising and prices have trended upwards. Imports of corn and other grains for mixed feeds have grown rapidly in recent years. A sharp decline in rye production in 1966 resulted in a Government regulation allowing millers to use up to 50 percent imported rye in rye flour. However, as of December 1, 1967, the milling quota for domestically-produced rye was raised to 65 percent.

The milk subsidy program adopted in 1965 attempted to promote efficiency in the dairy industry and to reduce treasury costs by basing support payments on the production of butterfat rather than on the size of herds and the value of land holdings. A new program adopted in 1967 provides for increased support payments which may be based upon the volume of milk production as well as on butterfat.

A "home market scheme" has been in operation since 1962, under which domestic prices for pork, beef, veal, poultry, and eggs are set at levels which vary with domestic production costs and are generally above both export prices and preestablished minimum producer prices. Thus, a two-price system was established with the objective of improving farm income and reducing the gap between farm and nonfarm earnings. Levies from domestic sales are channeled back to producers as supplemental payments. Thus, the Danish farmer usually obtains a higher price than the export price, with the consumer bearing the difference. This indirect support system is discontinued only when export

prices are higher than prescribed domestic prices (e.g., beef and veal during 1963-66). A dairy scheme, supervised by the Dairy Association, operates in a similar fashion and is effective in increasing farm income in the dairy industry, where labor shortages have been severe and costs high (29).

The home market scheme linking farm income to domestic price levels has added to inflationary pressures which have been severe in Denmark (31). The home market scheme is under review and may be ended if policies similar to those employed by the EEC are introduced in Denmark. High food prices have contributed to an escalation in the cost-of-living index, with which industrial wages are linked. This index has risen at an average rate of 5 percent since 1958. All producer price increases for agricultural commodities included in the home market scheme must be approved by the Government Monopoly Board, established in 1955; rising production costs have resulted in frequent approval by the Board of higher producer prices.

Livestock farming is concentrated on small farms, while grains are produced on large units. Thus, policy measures applied to one sector directly affect price and production decisions in the other. Grain price supports, which increase prices for the large units, result in increased costs to the livestock producer. Consequently, support measures have been applied to the small (principally livestock) holders, including compensation from a grain fund for purchases of feeds. The revenues in the grain fund are derived from levies on imported feed grains and skim milk powder plus an annual contribution by the Government. A levy is also imposed on hogs slaughtered for domestic consumption. The revenue from this levy is not returned to producers but is used for market promotion and quantity rebates for pork sold to the canning industry.

Regional economic grouping of countries in Western Europe has resulted in significant changes in the trade patterns for Danish agricultural products. The EEC, which takes about a third of Danish agricultural exports, has imposed levies and tariff barriers which have reduced Danish exports of cattle and meat. As a result, farmers feel that they have incurred losses. Cattle producers have asked for increased compensation from the Government. In the marketing act for 1967/68 and 1968/69 the Government increased milk price supports and the contribution to the "Disposal Fund" (established in 1963 and used for export promotion, quantity rebates, support purchases, storage programs, etc.). EFTA countries take about half of Danish exports (mainly butter and pork products). Since the interests and regulations of these two trade blocs are frequently in opposition, Danish policymakers must perform delicate balancing acts to appease domestic farmers while maintaining exports.

Danish agriculture was once protected by extensive quantitative restrictions. However, Denmark has liberalized import controls on certain agricultural products in recent years. Import liberalization has applied to cheese, oilcake, raw cocoa, manufactured tobacco, fruits and vegetables, certain meats, and feed grains. This trend in import liberalization was extended under the Kennedy Round negotiations. However, imports of most livestock and poultry products are still rigidly controlled. Denmark maintains bilateral agreements with certain EFTA partners. The most important agreements are with Sweden for certain Danish meat exports and with the United Kingdom (Denmark's most important trade partner) involving Danish butter, bacon, and poultry.

Some of the principal agricultural organizations in Denmark are the Export Boards (e.g., the Butter Export Board, the Danish Farmer's Cattle and Beef Export Board) and

the various export associations (e.g., the Danish Bacon Factories Export Association) which promote extensive marketing and export services without direct Government supervision and in close cooperation with the Danish Agricultural Marketing Board. However, all exports are subject to extensive quality control by the Ministry of Agriculture to ensure that regulations concerning sanitation, packaging, and basic quality standards are met (27). Export activities are backed by the Government Trade Fund, established in 1960, which guarantees credits provided by the Export Credit Boards.

Norway

Norway, since World War II, has encouraged increased agricultural production (particularly of animal products) to ensure a high level of self-sufficiency in the event of a national emergency. Most policy measures are included in the Agricultural Price and Policy Agreement which generally is negotiated every 2 to 3 years between representatives of the Government and the principal farmers' unions. Income objectives, price support measures, and trade and marketing arrangements are included in the terms of the agreement. Guaranteed target producer prices are established for the main commodities. The agreement is subject to revision if cost-of-living indexes vary beyond prescribed levels. Under the 1966-68 agreement, producer prices for dairy products, grains, and meats were increased, raising net farm income by an estimated 19 percent in 1966.

At present, the self-sufficiency level is about 40 percent (calculated on a caloric basis), but there are surpluses of dairy products and deficits in feed grains, fruits, and vegetables. Norway normally imports over half of its food requirements.

About half of total farm income is accounted for by milk production; about half of all price supports are for dairy products. In principle, dairy subsidies are granted to fill the gap between guaranteed prices and retail prices. Basic milk subsidies are varied seasonally, and are calculated on the basis of milk with a standard 3.6 percent butterfat content. Special dairy subsidies apply to marginal producers and to producers in northern areas. Consumer subsidies to reduce retail milk prices are also applied, and in 1967 they totaled $43 million. A reduction in cow numbers in recent years has not alleviated the milk surplus problem since increased yields per cow have more than outweighed the effect of the reduction in numbers. Low-priced margarine discourages increases in butter consumption. Surplus milk is exported in the form of butter and cheese. Meanwhile, dairy subsidies are increasing under the existing legislation.

Average producer prices are established annually for all categories of meat, and retail margins are fixed by the Government. These guaranteed prices are maintained by relaxing or tightening restrictions if prices vary beyond set limits for two consecutive weeks. Generally, similar procedures regulate the markets for other major commodities.

All market regulations for meats are administered by the Norwegian Federation of Meat Marketing Cooperatives. These cooperatives store excess supplies during high production periods. Beef and veal consumption has been increasing significantly and additional imports are likely. A Feed Fund derived from levies on certain quantities of feed concentrates purchased by farmers is used to improve marketing efficiency and subsidize certain exports (35).

Legislation has attempted to relieve the structural problem--too many small farms--in Norway, but terrain impedes farm enlargement. Average farm size is below 5 hectares (excluding extensive mountain pasture areas),

and the most suitable farmland is in the southeast (Oslo) and southwest areas. More than one-third of all farms in Norway are classified as small, low-income farms. Support measures favor these small farms, and special subsidies are allocated, for strategic reasons, to farms in remote areas. Other aids to agriculture include acreage-support schemes and fertilizer and transportation grants.

The number of small farms on the southern coast of Norway has decreased in recent years. These are a small percentage of the total and are generally managed by elderly farmers without heirs. The Land Use Act of 1955 permits the Government to purchase land for amalgamation, and allocates funds for clearing and cultivating, to encourage farm enlargement. The Land Use Act also contains provisions for reforestation and the preservation of tourist and recreational areas.

The Norwegian market is rigidly protected from competitive imports by quantitative restrictions, high ad valorem import duties, and licensing arrangements. Imports of fruit and vegetables are regulated to protect the Norwegian producer. The most important imports are food grains, feedstuffs, oilseeds, tobacco, sugar, and fruit and vegetables. All imports of grains and feeds, and the marketing of wheat, rye, barley, oats, and other feeds produced domestically, are regulated by the Norwegian Grain Corporation. The price of domestic flour is calculated in relation to the prices of imported bread grain, mainly wheat.

Prices of imported grain are lower than domestic producer prices, which are among the highest in Western Europe. The Norwegian Grain Corporation purchased a record quantity of 165,000 tons of wheat in 1966, accounting for about 60 percent of the increase in total U. S. exports to Norway that year. The increase in imports of U. S. wheat was due to the relatively attractive prices prevailing in the United States.

The United States is a principal supplier of agricultural products to Norway, providing virtually all imports of soybeans, corn, grain sorghums, a large share of the imports of other grains, and more than two-thirds of all imports of tobacco and cotton. In addition, a substantial portion of Norway's imports of fresh, canned, and dried fruit are supplied by the United States.

Effective January 1, 1967, customs duties were removed on nearly all tropical products not already accorded duty-free entry. After consultations held in September 1966 at the request of the United States, Norway removed from import licensing restrictions certain categories of processed fruits and vegetables. During the Kennedy Round of trade negotiations, Norway agreed to tariff concessions on several commodities of interest to the United States, including fruits and nuts, and certain fats and oils.

Portugal

Following a period of general stagnation in the agricultural sector, Portugal's recent policies have called for swifter and more intensive agricultural development. Special emphasis now is being given to increasing production of livestock products, forage crops, and fruits and vegetables. An attempt has been made to discourage marginal producers of wheat and encourage production of feed grains.

Agricultural production has increased very little during the last decade and has failed to adjust to changes in demand caused by higher income and increased tourism. Production of horticultural products, potatoes, and until 1965, wine has exceeded domestic needs while the deficits in wheat, feed grains,

and animal products have widened. Deficient farm structure and backward production techniques have been the major factors retarding the growth of agricultural production.

Portugal's new plan for 1968-73 sets the annual rate of increase in agricultural production at 3 percent, compared with 1.2 percent in the "interim plan" (1965-67). About one-fourth of planned investments in agriculture have been programmed for livestock and forage crop development. During the years ahead, increases in agricultural production probably will continue to lag behind increases in demand, resulting in a continuation of both high food prices and a high level of agricultural imports.

The Portuguese Government continues to rely on support prices and other incentives to increase agricultural production. In 1965, the Government raised slightly the support price for soft wheat, which had been unchanged since 1948, and announced a 5-year plan to intensify wheat production on the better lands. Guaranteed prices for feed grains were increased 4 to 7 percent in 1965.

In 1965, the Government adopted a livestock development plan which calls for importing some breeding cattle, expanding credit to livestock producers, increasing retail prices for livestock products, and establishing an efficient marketing system as well as more cold storage facilities. The plan also encourages the cultivation of forage crops on newly irrigated land in southern Portugal and other suitable land.

The Government has announced a number of measures to encourage shifts in the cropping pattern. In 1965, the Government set up regional commissions to advise producers on the crops best suited to each region. The Government is encouraging production of selected crops by providing seed at low prices. Extension services are being expanded gradually to foster the adoption of improved practices.

Portugal has a very favorable climate for fruit and vegetable growing. In 1964, the Government established the Fruit Coordinating Commission to supervise a 10-year plan, that had begun in 1962, for the expansion of fruit production. Cultivation of vegetables, particularly tomatoes, is expanding rapidly on irrigated land.

Farms are small and fragmented in the north, while in the south the holdings are often quite large. In 1963, the Government authorized the Internal Colonization Board to proceed more rapidly with land consolidation. To date, progress has been very limited.

Production of labor-intensive crops in Portugal is losing some advantages because the supply of farm labor is diminishing and support prices are low. Migration from rural areas has caused farm wages to rise rapidly. As a result, many farmers are shifting to crops that require less labor or are even leaving marginal land fallow. The small size of farms in the north and far south and the lack of capital have restricted mechanization. For some commodities, costs of production for less efficient producers are higher than the support and market prices set by the Government and land devoted to these commodities has been withdrawn from production.

Portugal controls foreign trade in agricultural products through quantitative restrictions, tariffs, and bilateral trade agreements. Imports of most agricultural products are controlled by official or semiofficial organizations. Portugal gives preferential treatment to imports from its overseas provinces.

Portugal's tariff concessions in the Kennedy Round of most interest to the United States were cuts of one-half in duties on

imports of soybeans, soybean meal, and tallow. Thus far, imports of soybeans and soybean meal from the United States have been practically nil but the Government's plan to expand livestock output will likely result in growing requirements for these commodities. Portugal is expected to also import increasing quantities of tallow from the United States. Imports of tallow totaled about $1 million in 1966.

Sweden

Swedish agricultural policy under the 6-year Agricultural Price and Market Agreement of 1959 failed to achieve desired social and economic objectives. Despite broad Government-subsidy programs and high import duties, the income gap between the farm and nonfarm sectors widened. Labor productivity increases during this period are estimated to have averaged about 5 percent per year due exclusively to reduced labor inputs. Consequently, a Swedish parliamentary committee recommended a new agricultural policy which alters the traditional program. Under the new policy, self-sufficiency (on a caloric basis) is to drop from about 94 percent to 80 percent by 1975 (42). This is to be accomplished by a decrease in the number of farms through the amalgamation of small units, and a reduction in producer subsidies for dairy products, sugar, and potatoes. Another major objective is to transfer marginal labor from agriculture into industry.

Sweden resorts to high import levies to protect domestic production and finance subsidy programs. These levies are recomputed as necessary to maintain a prescribed internal price level which ensures a certain degree of income parity and inflation protection for farmers.

A "middle" (wholesale) price is established for most farm products to give an acceptable level of farm income, but actual prices vary within prescribed limits around this price. This system is intended to give parity of income to family farmers with 20 to 30 hectares of land. Import levies are not changed if prices remain within the prescribed limits. However, under the 2-year Agricultural Price Agreement of March 1967 that was effective September 1, 1967, farmers receive a degree of inflation protection. Import levies and price ceilings and floors are scheduled to change on July 1, 1968, in response to changes in the consumer price index (with indirect taxes, housing, liquors, tobacco, and food deleted). The "3-percent rule" which called for adjustments in import taxes in response to changes in prices of inputs and of exports has been dropped from the new agreement.

The price-support program for grains is administered by a semigovernmental organization, the Swedish Grain Trade Association. Import taxes for feed grains are extremely high and have been a restraining influence on livestock raising. Beginning in 1968, production of sugarbeets is to be limited to 40,000 hectares under annual contracts between individual growers and the Swedish Sugar Manufacturing Company. Sugarbeet prices are to be reduced gradually until they are about equal to those adopted in the EEC. Current price policies aim to bring Swedish domestic prices in line with EEC prices, anticipating possible membership in, or association with, the EEC in the future.

Animal products are also supported by the system of "middle" prices, as well as by special supplemental programs. Slaughter taxes are imposed to finance certain export subsidies. In addition to a subsidy paid to milk producers for all milk delivered to dairies, supplemental subsidies are paid for deliveries up to 30 tons and for deliveries from small farms in northern areas. In anticipation of the Swedish policy change under which dairy levies are to be gradually reduced,

the number of milk cows has declined while beef production has increased.

The Swedish Oilseed Extraction Association purchases and processes oilseeds; about 100,000 tons of domestic oilseeds, yielding about 33,000 tons of oil, must be processed annually for domestic use and for export. Remaining edible oil requirements are imported principally in the form of copra and fish oil at present.

In addition to import levies, a flexible fee is applied to imports of raw materials for the production of margarine. Under the new legislation, the fees applying to imports of fats and oils have been reduced. This should lower margarine prices. Butter prices were raised sharply under the new agreement. Thus, these measures should result in a wider spread between the retail prices of margarine and butter.

Furthermore, quantitative controls protect certain products, mainly apples and pears, during the marketing season. Agriculture is further protected by restrictive health regulations and sanitary controls.

The highly developed cooperatives exert considerable influence over internal marketing arrangements and prices in Sweden. The Federation of Swedish Farmer's Associations (together with the Swedish Farmer's Union) represents agricultural interests in negotiations on the fixing of prices for farm products. Cooperatives are important throughout the marketing system, handling about 80 percent of wholesale and 25 percent of retail sales.

Some conflict has arisen between the cooperatives, which monopolize certain sectors of agricultural trade (the slaughterhouse cooperatives handle 86 percent of the meat), and the Government. The parliamentary committee on agricultural policy, arguing that cooperatives are partly responsible for rising food prices, has recommended that the regulatory functions of certain cooperatives be handled by Government bodies and that cooperatives compete on an equal basis with private dealers. The result, according to the committee, would be freer international trade in food products.

Export subsidies apply principally to meat, dairy products, eggs, grains, oilseeds, and oils. Funds are administered by semi-governmental marketing associations and are derived mainly from compensatory fees on imports and domestic production. Approximately half of the export aid granted in 1964 went to the livestock sector.

Sweden increased its agricultural imports from other EFTA countries by one-half and its exports to these countries by one-third between 1961 and 1965. Although agricultural trade with EFTA lags behind that with the EEC, more liberal trade practices by EFTA partners are anticipated, particularly with Denmark, Sweden's main supplier of meat. Special tax rebates have been granted to Danish meat exporters, and further concessions may be forthcoming.

The goal of structural policy is to create larger, more efficient farms. The Land Acquisition Act of 1965 regulates structural schemes and authorizes the provincial agricultural boards to enforce land purchases. Various Government credit schemes are available for the purchase of land and equipment and for technical improvements. In Sweden where about 20,000 hectares are reforested annually, farm structural policy is closely coordinated with developments in the forestry sector.

Switzerland

Agriculture's position in the Swiss economy is relatively minor--a characteristic of

most industrialized nations. It accounts for about 5 percent of national income and employs 8 percent of the total labor force.

Switzerland faces many of the agricultural problems of other West European countries: small, fragmented farms; a price-cost squeeze; a rapidly declining rural population; relatively low farm income; a farm income disparity between the lowland and mountainous regions; periodic surpluses of some products, mainly potatoes, eggs, and butter; and relatively large imports of agricultural commodities.

The 1951 Agricultural Act provides the framework for agricultural policy in Switzerland. Policy objectives set forth in this Act, the 1959 Wheat Act, and the 1932 Alcohol Act are as follows: (1) to ensure substantial domestic supplies in the interest of national security; (2) to maintain an adequate farm population; (3) to promote agricultural productivity through the reform of farm infrastructure; and (4) to improve the efficiency of farm management.

These objectives are implemented through three categories of Government-financed programs: (1) price supports and marketing regulations; (2) measures to improve agricultural technology and farm structure; and (3) measures to promote the social welfare of the rural population. The programs are generally designed to provide special assistance to farmers in mountainous districts.

The farm price and marketing programs are by far the most important domestic farm measures, accounting for about 70 percent of Government farm expenditures. These programs are designed to provide a fair remuneration to farmers and to help balance domestic supply and demand by maintaining proper price relationships between farm products. These programs are applicable to nearly all farm products and are generally administered by government, semigovernment, or cooperative agencies. The following are features of the major commodities.

Dairying is the most important component of Swiss agriculture, accounting for one-third of gross output. The Federal Council sets basic producer prices and the Central Milk Producers Union pledges payment of at least the basic price, regardless of utilization. Farmers in mountain districts receive direct payments on a per head basis for up to 10 dairy cattle.

The Federal Council sets target prices for slaughter livestock. These prices vary by grade and type of livestock, as well as by season. The Swiss Fatstock and Meat Suppliers Cooperative, which is composed of producers, dealers, importers, and meatpackers and processors, administers the program.

There is no official Government control over imports and marketings of poultry. However, there is an agreement between producers and importers to regulate the marketing of domestic poultry. The revenue from a tax on poultry imports is used to subsidize the domestic poultry industry.

Eggs may be delivered to collecting agencies at prices fixed by the Federal Council. While import regulations are relatively liberal, importers each year must purchase domestic eggs amounting to 30 percent of their average imports during the 2 previous years.

Prices for bread grains are set by the Federal Council and administered by the Federal Wheat Administration. Growers are paid a bonus for grain produced and consumed on the farm. This bonus is based on the difference between the prices of domestic and imported wheat.

Payments for feed grains are based on the area sown and the region in which they are produced. Imports are controlled by the Swiss Grain and Fodder Cooperative Society.

Producer prices for potatoes are set annually by the Federal Council. The Alcohol Act authorizes the distillation of potatoes when requirements for all other uses have been met.

Government expenditures to increase productivity and improve the structure of agriculture have been increasing more rapidly than those to support prices and improve the marketing system. Measures include investment credits, extension and educational services, and cost-sharing for land improvements and soil conservation practices.

Foreign trade policy supplements domestic agricultural programs. Imports of grains, flour, feedstuffs, fats and oils, butter, and seed potatoes are handled by the State. Fats and oils and some feeds are subject to import tariffs. Livestock, meat, fruits and vegetables, potatoes, wine, and grape juice are subject to quantitative restrictions. Conditions on imports of eggs, powdered whole milk, and casein are determined by domestic supplies. "Price supplements," which are import taxes in addition to customs duties, are levied on feedstuffs, butter, skim milk powder, condensed milk, cream, and edible fats and oils. Exports of livestock for breeding, dairy products (mainly cheese), and--in some instances--potatoes and fruit and fruit products are subsidized.

Swiss concessions in the Kennedy Round which will benefit the United States include tariff reductions on raw cotton, canned fruit and vegetables, fruit juices, and inedible animal fats. Another concession was the binding of the existing low tariff rate for rice, an important U. S. export to Switzerland.

United Kingdom

Agricultural policies and programs in the United Kingdom have remained basically unchanged from those embodied in the Agricultural Acts of 1947 and 1957. Agricultural support is provided primarily by deficiency payments. The deficiency-payments system has been modified over the years but in its simplest form works as follows: The domestic product competes in the market with imported products which generally are subject to relatively low tariffs. (In some cases, imports have been increasingly restricted by the Government in recent years.) The farmer is later reimbursed for any difference between his realized price and a guaranteed price. About 95 percent of total output is covered by deficiency payments; the balance, essentially horticultural products, is protected by import levies. Guaranteed prices are paid on grains, finished livestock (cattle, sheep, and hogs), potatoes, eggs, milk, sugarbeets, and wool. However, production exceeding a "standard quantity" (quota) is penalized by prorating a reduced deficiency payment over the farmer's entire crop.

One characteristic of the system is that it leaves domestic prices at the mercy of the world market, on which large price fluctuations are frequent. A fall in market prices resulting from increased imports is reflected in an increase in deficiency payments from the treasury to farmers. Conversely, a rise in market prices reduces the burden on the treasury but increases consumer food costs. Bilateral market-sharing agreements for butter, bacon, and grains have been entered into in attempts to stabilize prices and exchequer payments. There is also a minimum import price agreement for grain and grain preparations.

Grants and subsidies to farmers are authorized for traditional items, e.g., fertilizer, lime, and eradication of tuberculosis,

as well as for other purposes including the improvement of hill cattle and hill sheep, wintering of livestock, construction of silos and other farm improvements, establishing farm business record systems, etc.

A number of commodities are now subject to governmental or quasigovernmental marketing bodies. Bonuses are paid farmers by the Home-Grown Cereals Authority for forward contracting with grain merchants to market agreed quantities of grain each month. Potato marketing is regulated by a Government buying program under a market support arrangement introduced in 1965. Sugarbeet acreage is limited by the British Sugar Corporation through contracts. Most eggs are sold through the British Egg Marketing Board. The Pig Industry Development Authority grades bacon hog carcasses. Wool is marketed by the British Wool Marketing Board. The Milk Marketing Board implements Government milk programs.

In the Kennedy Round of tariff negotiations, the United Kingdom made concessions on items representing about a third (1964 trade data) of the agricultural imports from the United States. Most of these are scheduled for an average duty cut of 50 percent. The United Kingdom also agreed to cut the Commonwealth preference on manufactured tobacco by 25 percent, contingent on U. S. elimination of the American selling price basis of valuation for certain chemicals. U. S. tobacco exports to this market are valued at about $134 million (1967 trade data).

The import policy of the United Kingdom is heavily influenced by the fact that the country relies on imports for half of its agricultural needs. It produces little or no cotton, tobacco, corn, sorghum, or oilseeds. Further, domestic production of wool, wheat, sugar, dairy products, beef, mutton, lamb, bacon, fruit, and vegetables must be regularly supplemented by imports to meet domestic requirements. Fluid milk, eggs, and fresh pork are produced in sufficient quantity to eliminate all but marginal imports.

With a few exceptions, tariffs on imports of raw agricultural products into the United Kingdom are relatively low. Commonwealth countries are exempted from duties or have preferential rates. In 1965, the United Kingdom and the Republic of Ireland signed the Anglo-Irish Free Trade Area Agreement. Under this agreement, the United Kingdom abolished all remaining import duties on products from Ireland on July 1, 1966. Irish duties on U. K. products will be removed over a period of years.

The Bacon Market Understanding, drawn up between the United Kingdom and traditional suppliers in 1963, seeks to relate bacon supplies to market needs so that U. K. prices are acceptable to producers and consumers. The minimum quantity and a reserve quantity are allocated between the participating supplier countries, including the United Kingdom itself.

Agreements on grain imports were concluded in April 1964 between the United Kingdom and its four principal suppliers--Argentina, Australia, Canada, and the United States. Before July 1965, 17 additional countries had agreed to cooperate so that practically all U. K. grain imports now come from cooperating sources. Minimum import prices were introduced in July 1964, and a standard-quantity payments system was introduced for domestic production. The United Kingdom is also a signatory to the International Grains Arrangement of 1967.

Except for the above agreements, the United Kingdom generally imports agricultural products from any country whose exports are competitive in the U. K. market. There are, however, certain agreements with Common-

wealth suppliers to import farm products at specified prices.

There are a limited number of prohibitions on imports of agricultural produce from certain countries to protect plants and animals in the United Kingdom from pests and diseases. The most important of these ban fresh and frozen poultry from North America, potatoes from North America, and fresh pork offals from the United States and certain South American countries. The 1967-68 foot-and-mouth epidemic resulted in a ban on imports of mutton and lamb (including offals) from countries where foot-and-mouth disease is suspected. A similar ban on fresh and chilled beef imports was applied through April 15, 1968.

The National Economic Development Plan of September 1964 called for the selective expansion of agricultural production to meet anticipated demand in 1970, and for the continuing release of labor to nonfarm sectors. The hired farm labor force now numbers only about 400,000, and total labor in agriculture amounts to less than 3.5 percent of civil employment. One-half of total output is derived from 42,000 large enterprises. Two new farm structure schemes went into operation at the end of October 1967; one scheme provides grants to hasten the consolidation of some 200,000 small holdings and the other provides grants to encourage the early retirement of their operators.

Agricultural research is carried out mainly under the auspices of the Agricultural Research Council, a Government research organization. The Ministry of Agriculture, Fisheries, and Food conducts research in fields such as animal health and disease control where it has special responsibilities, and makes grants to universities for research in agricultural economics.

Research results are disseminated through the National Agricultural Advisory Service, the Agricultural Land Service, Scottish agricultural colleges as well as advisory services of commercial firms, the farm press, universities, agricultural colleges, and farm institutes.

It is generally recognized in the United Kingdom that agricultural policy will have to be changed substantially if the United Kingdom enters the EEC, which has a common agricultural policy already in effect. For the next several years, policy probably will continue to revolve around the deficiency-payment system which tends to stabilize farm incomes and maintain low food prices to consumers. However, the United Kingdom has shown indications that it might switch from its present system to a more restrictive import levy system. In either case, under the terms of the 1965 National Economic Development Plan, the agricultural sector is being asked to further increase its self-sufficiency.

OTHER WESTERN EUROPE

Finland

Agricultural policy in Finland since World War II has encouraged diversification of production and high levels of self-sufficiency in the major farm products. The climate and soil favor forage crops, and diversification efforts have been a strain on the national budget, from which large appropriations are made to various types of agricultural enterprises. Social factors have kept officials from amending subsidy programs hastily. Nevertheless, Finland's policy had successfully guided production from a period of

severe agricultural scarcity in the 1940's to relative abundance of livestock and dairy products and feed grains in the 1960's. About 25 percent of the labor force is employed in agriculture and forestry; the average farm size of 9 hectares is too small for efficient production. This structural problem is due not only to environmental factors, but also to the resettling of the Karelian refugees from the territory ceded to the USSR.

The procedure for allocating supports was formulated in the 3-year Agricultural Price Level Act of 1962. Target producer prices are established annually or biannually for milk, beef, pork, eggs, wheat, and rye. In principle, prices are guaranteed only for quantities equal to domestic consumption. However, guaranteed prices have been paid for milk and egg output in excess of domestic requirements since production of these commodities was above self-sufficiency levels when the 1962 law was enacted. The current average level of self-sufficiency for all foodstuffs is about 97 percent, but there are wide variations in self-sufficiency levels between products. The self-sufficiency level for both milk and eggs is over 120 percent. High export subsidies are granted to help dispose of surplus dairy products and eggs, but trade barriers and increasing supplies of these products in the EEC have aggravated export problems.

The new Price Level Act of 1967 is designed to curb the upward pressure on prices. Farm income will be regulated according to indexes of prices paid for production and consumption items by the farm sector alone rather than according to rapidly rising costs in the economy as a whole. However, the new act does not limit the quantity of production subject to guaranteed target prices, and consequently may not reduce production of surplus commodities.

Direct subsidies to agriculture include payments to small farmers and to farmers in unfavorable producing regions. There are also consumer subsidies to reduce retail prices of some agriculture products, particularly butter. Production subsidies for dairy products vary by region (57). Special subsidies based on herd size are paid for feed purchased by dairy farmers. Also, the transportation of milk from producers in remote areas in northern Finland to dairies is subsidized. To stimulate production of rye and barley in the northern regions, the State Granary is authorized to pay increased prices for grains produced north of certain limits. Regional price supports have also applied to pork and beef since 1964, and to mutton since 1965. Subsidies to small farms have increased around 12 percent annually in recent years and are highest for farms between 5 and 9 hectares. Subsidies under the new Price Level Act of 1967 are limited to farms below 12 hectares and to farmers whose annual taxable income is below $2,031. Subsidies for farm inputs, except feeds, were discontinued in 1965.

Legislation has been adopted to alleviate the problem of farm fragmentation. Under the Land Use Act of 1958, the State Board of Colonization acquires land through open market or compulsory purchases and reallocates it to existing farms. The Law on Basic Credit for Agriculture of 1964 provides loans at subsidized interest rates for the purchase of farms. A survey by the Finnish Board of Agriculture in 1966 indicated that at a very slow rate the number of very small farms is decreasing and the number of larger units is increasing.

Finnish agriculture is highly protected. Import levies are adjusted annually under the "Law on Import Fees for Agricultural Products." Variable levies are applied to a number of agricultural products that compete with Finnish products. Many complementary com-

modities also are subject to import levies, mainly to provide additional revenue for the national budget and for high export subsidies.

Quantitative controls, mainly licensing and global quotas, are enforced. Global quotas apply to only a few items--significantly to fresh fruit, which is a leading U. S. agricultural export to Finland. Finland agreed to a number of tariff concessions in the Kennedy Round which should benefit the United States--including cuts on fruits (certain categories), nuts, tobacco, hides and skins, and various processed foods.

Finland currently has 10 bilateral trade agreements, mainly with Communist countries. The most important of these agreements, that with the USSR, is renegotiated annually. Finland has generally attempted to export dairy products and eggs to the USSR while importing mainly cotton, sugar, and occasionally wheat in recent years.

Greece

Greece's economic problems--basically agricultural--are more closely akin to those of the world's emerging nations than to those of its more industrialized West European neighbors. Farmers constitute half the labor force, but contribute only a quarter of gross domestic product. Yet Greece depends on agriculture for 80 to 90 percent of its export earnings, with one crop--tobacco--accounting for approximately half.

Farming in Greece is inhibited by rugged terrain and little rain. Only one-quarter of the country's area is classified as arable. The shortage of rainfall makes irrigation necessary for many crops, but only one-sixth of the farmland is irrigated.

Structural problems in Greek agriculture are severe. Farms are smaller than in any other country in Western Europe: 85 percent are less than 5 hectares; almost 30 percent are smaller than 1 hectare. The problem is compounded by extreme fragmentation of holdings.

Despite these obstacles, agricultural output in Greece has increased more than two-thirds during the last decade. However, this growth has not equaled that in the nonagricultural sector. Thus, agriculture's contribution to GDP has declined from one-third to about one-quarter over the last 10 years.

The Government has adopted a number of measures in recent years to raise the income of Greek farmers relative to that of workers in the nonagricultural sector, and to increase agricultural exports. In general, the Government has tended to rely more and more on economic incentives and improved marketing practices to achieve its goals.

Prices of most major farm commodities are supported by Government purchase at a fixed price. But in some cases, the Government uses direct payments to cover the difference between the support level and the market price. Acreage subsidies are paid for cotton, sugarbeets, and forage crops. Livestock producers receive several subsidies to encourage an expansion in output of livestock products to meet demand.

Substantial aids are granted on certain inputs--either subsidies as a percentage of the purchase price of fertilizer, certified seed, and pesticides or as tax rebates on gasoline.

Farmers receive liberal credit from the Agricultural Bank of Greece, their main source. Farmers pay only 2 percent, while the Bank's usual interest rate is 5 percent--the remainder being absorbed by the Government.

Greece's mild climate gives it an advantage in producing early crops of fruit and vegetables for the West European market. The Government is atempting to capitalize on this natural advantage by organizing a marketing structure capable of meeting the demands of foreign consumers. Action is directed principally toward standardizing grades and packaging, establishing more stringent sanitary regulations, and assuring delivery of fresh, good-quality produce by subsidizing transportation. Construction of new food processing facilities is also heavily subsidized.

Under the 1966-70 Economic Development Plan, GAP is to increase at an average annual rate of 5 percent. Main agricultural goals of the Plan include (1) shifting the production pattern toward export commodities and livestock products; (2) enlarging and consolidating fragmented holdings into viable economic units; and (3) improving the marketing structure to meet both domestic and foreign demands. The irrigated area is to be expanded by about one-half to about 800,000 hectares in 1970.

Since its association with the EEC in 1962, Greece has enjoyed the Community's preferential tariff rates on a number of its exports to the area--primarily agricultural--while it has up to 22 years to harmonize its import duties with the Community's CXT. The Community takes about 40 percent of Greece's exports. The most important commodity in this trade is tobacco. Greece is second only to the United States as a supplier of tobacco to the Community.

As noted earlier, agricultural exports are vital to the economy. Expansion of exports is a basic concern of the Government. These exports are not an unmixed blessing, however. An overresponse to the Government's self-sufficiency program resulted in recent gains in exports being mostly in heavily subsidized crops--especially wheat. Inducements for wheat growers to shift to barley during recent years have not eliminated surplus wheat production and may result in additional surpluses having to be exported at considerable cost to the Treasury.

Agricultural products account for about one-sixth of total imports by Greece. But imports of agricultural products have been increasing rapidly in recent years since the increases achieved in Greek agricultural output have not equaled the growth in demand. Meat and dairy products accounted for more than half of total foodstuff imports in 1966.

The Government which came to power in April 1967 is making some changes in Greece's agricultural policy. Distribution of municipal land to landless farmers has been announced. Also, the Minister of Agriculture has announced a 70-percent increase in farmers' pensions, as well as other social measures for farmers. The wheat policy introduced in August 1967, among other measures, opened the formerly closed professions of flour miller and baker and eliminated the higher extraction rates. A reduction in the high flour extraction rates will provide a larger supply of bran for livestock feed.

Ireland

An outstanding feature of the Irish economy is its dependence on agricultural exports. About 50 percent of off-farm sales are for export; agricultural products represent a higher proportion of total exports (60 percent) than for any other developed country except New Zealand.

In the absence of either significant population growth or rapid economic development, postwar agricultural expansion has resulted in dietary improvement and an increase in exports of agricultural products.

Increases in output are planned by the Government under the Second Program for Economic Expansion, 1964-70. Planned measures beneficial to agriculture include improving access to foreign markets; reducing farm production expenses; ensuring adequate credit; providing educational, research, and extension facilities; supporting prices of selected commodities; and encouraging greater efficiency in production and marketing. Much State assistance to agriculture has been aimed at improving productivity; the role of direct price supports has declined.

Efficiency in farming is being emphasized to reduce the agricultural labor force and close the gap between farm and nonfarm incomes.

Annual Government expenditures for agricultural support (including the cost of some services not exclusively for the benefit of farmers) reached nearly $151 million for the year from April 1965 through March 1966. This expenditure on agriculture is equal to more than $50 per capita, in contrast to $12 spent by the United Kingdom and $10 by West Germany. Expenditures on agricultural support have doubled during the past 5 years. Farmers now have guaranteed prices for milk, wheat, barley, sugarbeets, and hogs--products which make up nearly half of the total value of agricultural output.

The Anglo-Irish Free Trade Agreement came into force on December 14, 1965. It is basically an exchange of Irish concessions on U. K. industrial products for improved access and price arrangements for Irish agricultural products and for the elimination of remaining U. K. import duties on Irish industrial products. Prices for feeder cattle and sheep in Ireland are linked to guaranteed prices for these types of livestock in the United Kingdom under this and previous trade agreements. These commodities account for one-third of Irish agricultural output.

The United Kingdom abolished all import duties on products from Ireland on July 1, 1966. Irish duties on U. K. products, however, will be removed in 10 annual increments from July 1, 1966. Ireland can exclude jute and a large number of U. K. agricultural and agriculture-based exports from the obligations of free trade.

Ireland has traditionally been a high-tariff country, but many tariffs have been modified in recent years. Ireland is a member of the OECD and the IMF and has applied for membership in GATT.

Ireland is a net exporter of most livestock products, but production fails to cover domestic needs for many crops, particularly grains and fruit. Ireland buys wheat, corn, fruit, oilcake and meal, tallow, tobacco, and cotton from the United States, and in turn exports beef, wool, and horses to the United States.

The Irish Government has complete control over foreign trade in grains and mixed feedstuffs. Imports and exports are controlled through a licensing system administered by the Department of Agriculture and Fisheries. Import licenses for grain are issued by the Department on recommendations from the Irish Grain Board. Exports of grain and manufactured feeds are small, primarily composed of border trade with Northern Ireland.

Economic and political changes in Ireland's traditional markets are compounding the problem of finding markets at remunerative prices for its increasing supplies of agricultural products. Inflation is expected to be a continuing problem and the fight against it will influence Government programs.

Spain

Agricultural policy in Spain has failed to adjust agricultural production to changes

in demand for agricultural products. Output of wheat, rice, potatoes, and low-quality cotton has been in excess of demand while the gap between production and domestic requirements has widened for feed grains, oilseeds and oilseed products, and livestock products. For example, the wheat harvest approached 5 million tons in 1966 and in 1967 reached a record 5.6 million tons, or about 2 million tons above requirements, while the feed grain deficit rose from 2.3 million tons in 1965 to 3.4 million tons in 1966. In 1966, Spain's agricultural imports amounted to $792 million, or more than one-fifth of total imports, and the deficit in agricultural trade amounted to $271 million (customs basis).

Support prices for some agricultural products have been changed to encourage shifts in production. The grain regulations adopted in 1966 and early 1967 provide added incentives (higher support prices and subsidies and more credit to farmers and producer cooperatives) for feed grain production. But the regulations also aim at maintaining wheat production at about 4 million metric tons. Measures protecting producers of feed grains include a minimum producer price and minimum import price. The cotton regulation adopted in 1966 provides higher support prices for good-quality cotton to discourage production of the lower grades.

Special emphasis is being given to improvement of the marketing system. Spain has relaxed some of its tight controls over marketing. Agricultural products are increasingly being imported by commercial enterprises rather than by Government agencies. Many municipal and provincial taxes on the movement of goods which hindered marketing efficiency have been removed. Since 1965, the Government has permitted farmers to sell selected food products such as fruits, vegetables, and root crops directly to retailers. Cotton producers are no longer required to sell their crop only to a Government organization. The Government has sponsored private technical and marketing organizations such as COES (Spanish Cooperative for Marketing of Farm Products) which promotes improved livestock production and marketing practices.

Despite the liberalization of trade in agricultural products, a large percentage of the value of all agricultural products marketed domestically is still subject to either Government intervention or price regulation. Production and marketing of some commodities, including wheat, sugarbeets, hops, cotton, and tobacco, continue to be closely regulated. Other commodities--feed grains, rice, olive oil, wine, pork, beef, eggs, and sunflowerseed--are subject only to minimum price supports. The Supply and Transport Commission (CTA) and other Government agencies are responsible for support buying of these commodities and for selling them when the market permits.

The Government has adopted several programs to improve agricultural productivity. An important factor limiting crop production over most of Spain is the dry climate. The Government is promoting irrigation. In 1965, public investment in irrigation projects amounted to $158 million. Currently, less than one-tenth of the cultivated area is irrigated. Expansion of irrigation facilities is generally undertaken along with plans to improve the economic situation in depressed agricultural areas. By far the biggest of these are the development plans for the provinces of Badajoz and Jaen in southern Spain. In addition to irrigation, these plans include land-resettlement programs, reforestation, road construction, and the establishment of factories to provide nonfarm employment.

Farm structure has impeded increased agricultural production and income. Farms in northern Spain are small and fragmented,

while in the south they are extremely large and employ a great number of hired workers and tenant farmers. The Institute of National Colonization has been actively promoting land consolidation in northern Spain in recent years. The total area consolidated reached more than 4.5 million hectares by the end of 1966. Recent legislation obligates owners of large estates to increase productivity or face expropriation. The increase in rural emigration in recent years may indicate that the tempo of improvement in farm structure is increasing.

Foreign trade policy remains basically protective of Spanish agriculture, although there are periodic suspensions and reductions in tariffs on agricultural products in short supply. In addition to customs duties and tariffs, a variable levy based on annually established minimum import prices is charged on imports of commodities which are subject to internal market regulation to equate import prices to domestic prices. At the end of 1967, minimum import prices applied to barley, corn, sorghum, frozen beef and pork, and vegetable oils. State trading agencies handle imports of tobacco, natural fibers, and basic foodstuffs, including wheat. Bilateral trade agreements were renewed with several Communist countries in 1966.

In the Kennedy Round of trade negotiations, Spain cut the 5 percent duty on imports of oilcake by one-half. The United States exports about $10 million of oilseed cake and meal (mainly soybean meal) to Spain each year. Since Spain has been rapidly increasing its own soybean crushing capacity, imports of soybean meal may continue to decline. The Government applies restrictions on some exports such as olive oil, and at times authorizes export subsidies, as on eggs and low-quality cotton in 1965.

Spain's 1964-67 Development Plan allocated $1.12 million to agriculture and aimed at a 4-percent annual increase in agricultural output. The directives of the new plan for 1968-71 indicate that additional emphasis will be placed on agriculture, particularly livestock raising. The production of feed grains and oilseeds is being encouraged to support the planned expansion in the livestock sector. In addition, the Government in recent years has adopted various incentive measures, such as price supports, to improve livestock production.

Soviet Union and Eastern Europe

COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE

CEMA (the Council for Mutual Economic Assistance) 3/ was organized in 1949 to encourage economic cooperation among the Communist nations of Eastern Europe and the USSR. It is not a supranational organization that formulates policy for all member nations, but its 25 permanent commissions do make recommendations. No CEMA recommendation becomes effective until it has been ratified by each member government. CEMA's long-term aims are to increase the economic opportunities of the region through specialization and trade and thereby further economic development and the efficiency of production in the region.

Since 1949 there have been noticeable shifts in emphasis in CEMA policies, reflect-

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3/ Sometimes referred to as COMECON.

ing changes in political leadership and in the relative economic and political positions of member countries. During the early fifties, CEMA appeared to reflect primarily the strong political and economic dominance of the USSR in the area and its efforts to maintain that dominance. During the late fifties and early sixties, there was greater emphasis on economic specialization within the region. Much of this emphasis was constructive from the point of view of economic efficiency within the entire area, but conflicted with development plans of individual countries, the governments of many countries apparently feeling that close economic integration would benefit the USSR more than their countries.

During the early sixties, two developments in the area brought about another shift in CEMA policy: a movement toward a greater degree of national political autonomy, and economic difficulties which resulted in economic reforms in various countries. Some countries also exhibited strong nationalistic tendencies, including a desire to pursue development plans which often conflicted with the ideals of regional specialization and closer integration. Recent CEMA policies appear to reflect these developments. Efforts toward integration and specialization now take into account the preferences and problems of individual countries to a greater extent than in the past.

There are eight permanent members of CEMA: Bulgaria, Czechoslovakia, East Germany, Hungary, Mongolia, Poland, Romania, and the Soviet Union. Yugoslavia participates fully in some of the commissions, but is only an observer in others.

The CEMA Agricultural Commission has been in existence for about 10 years. It is responsible for coordinating economic and scientific programs of member nations in the fields of agricultural production, planning, and trade. The commission also recommends the adoption of certain specific programs.

In the past 10 years, the Agricultural Commission has focused its attention on coordinating the various plans of member countries for the development of agricultural production. Included in the commission's work have been surveys of the agricultural potential of, and studies of agricultural specialization in, each country.

In the latter half of the fifties, for example, the commission made recommendations to expand the production of fruits (including grapes) and vegetables in Bulgaria, Hungary, and Romania. These recommendations were adopted by all three countries, and have been successfully implemented. The foreign trade in these commodities subsequently has been increased in all three countries.

Improving the production of select seeds has been another objective of CEMA, and high-yielding varieties of wheat, sugarbeets, and other crops have been developed in Bulgaria, Hungary, and the Soviet Union. This seed improvement program has been a major accomplishment of CEMA, since an important share of high-yielding seed previously had been imported from the more advanced agricultural countries of the West. Some of the recent successes in wheat and sunflower production in Eastern Europe, moreover, may be attributed to the introduction of the Soviet variety of wheat, Bezostaya I, and improved varieties of sunflowerseed.

Mutual agreements have also been initiated in the field of animal husbandry, primarily in breed improvement, and in the exchange of information on livestock feeding and industrial production of livestock feeds. The Agricultural Commission also cooperates with the Chemical Commission of CEMA to determine industrial capabilities of member

nations for production of amino acids and other feed supplements.

In the field of agricultural machinery, the Agricultural Commission has examined about 700 types of agricultural machines and has indicated which of the models should be continued, and which nation is in the best position to produce them.

Recently the commission started an economic survey on the organization and management of farm enterprises in the various countries. Included in the study is proposed research on incentives, cost accounting, labor payments, and a host of other management problems. Although the commission will draw upon the full resources of all members for this study, individual countries will still be free to determine their own programs.

CEMA's major agricultural success has been in the field of research. It has pooled the scientific talent of member countries and accomplished more than a single nation could have accomplished. Thus problems common to all nations have been resolved more expeditiously.

SOVIET UNION

Virtually all phases of agricultural production, utilization, and trade, as well as rural life in general, are strictly controlled by the Soviet Government. Agricultural policy at any given time reflects the relative priority of agriculture within the general politico-economic priorities of the Soviet Government, especially of its dominant leaders. Farm tenure arrangements, type and size of units, cropping patterns, supply and price of inputs, the share of output marketed, the prices paid for agricultural products, farm income and expenditure patterns, agricultural research, and even labor mobility are regulated by the Government. In the same way, farm product marketing and utilization within the country--the quantity of food consumed and quality of the diet--and the exports and imports of agricultural products are strictly controlled.

Such a system is especially susceptible to discontinuities in the formulation and execution of agricultural policy. Changes in political leadership or in the attitudes of leaders toward agriculture can, and often do, affect all phases of Soviet agriculture. As a consequence, trends in agricultural output, consumption, and trade also exhibit discontinuities. Since World War II, there have been three major shifts in Soviet agricultural policy: (1) in 1953-54, with Joseph Stalin's death; (2) in 1957-58, with Khrushchev's reduced efforts to increase production; and (3) in 1964-65, with Khrushchev's replacement by Brezhnev and Kosygin who introduced a new set of agricultural policy goals. Each of these demarcations was followed by a sharply altered pattern of agricultural production, consumption, and trade.

The stated Soviet agricultural objectives have remained basically unchanged since the introduction of massive collectivization in the late 1920's and early 1930's: (1) to acquire, at the lowest cost, the largest supply of food and raw materials for domestic consumption and export; (2) to develop communism in agriculture and in the rural sector in general; and (3) to be as self-sufficient as possible in farm products. However, at various times certain agricultural goals (for example, collectivization or capital formation) have dominated others (e.g., raising output, improving the diet, or increasing agricultural productivity). At other times, politico-economic priorities other than agriculture are stressed, resulting in a lower priority for agriculture. But the specific agricultural policies and practives carried out are more relevant to the course of agricultural output than are the stated policy objectives.

The present Soviet agricultural policies, embodied in the programs announced and put into effect since October 1964, depart sharply from the policies followed by Khrushchev from 1958 to 1964. Between 1930 and 1953, Soviet agricultural policy was designed basically to subordinate agriculture to the objective of industrialization under communism, and to provide agriculture with only the minimum resources necessary to supply the food and raw materials needed by industry and the urban sector. During these years, the flow of products out of agriculture increased but productivity remained low.

From 1953 to 1957, Soviet agricultural policy sought to expand production primarily through large increases in sown area. Simultaneous with this effort there were also some beginning efforts to increase the supply of productive inputs and capital investment, and to increase farm prices and incentives. These policies, assisted in some years by good weather, generated a significant increase in agricultural production, an improvement in the diet, and increased exports of agricultural products, especially grains. By 1958--partly because of this success and partly because of other economic and political priorities--these output-stimulating efforts were relaxed and in some cases actually reversed, although the stated policy continued to call for major output increases during the Seven-Year Plan (1959-65).

This reversal of agricultural priorities and unfavorable weather in some years resulted in a stagnation of output, with a serious crop failure in 1963 and a less serious agricultural shortfall in 1965. The agricultural situation, especially in the grain and livestock sectors, first stagnated and then deteriorated seriously during latter years of the Seven-Year Plan. Furthermore, reliance on extensive means of increasing output made Soviet agriculture especially sensitive to variations in weather, resulting in output instability. The most significant manifestation of this deterioration--sparked by the grain crop failures in 1963 and 1965--was the dramatic shift of the USSR from an important net grain exporter (averaging about 6 to 7 million tons annually during 1959-62) to a major net grain importer (averaging about 7 million tons annually during 1963-65).

Partly because of these serious agricultural difficulties and partly for other reasons, the leadership which replaced Khrushchev adopted a series of programs to expand agricultural production, essentially through intensive means, with larger grain crops as the immediate goal. These new agricultural policies, embodied in the programs announced and initiated since November 1964, touch upon virtually every phase of agriculture and rural life.

Plans: Government plans and purchase policies for agricultural products have been changed sharply from those existing until 1964. Table 2 presents some of the most important quantitative changes. The levels of output projected in the new plan (the Eighth Five-Year Plan--1966-70) were sharply reduced from previous goals. This was paralleled by an equally large reduction in the quantities of agricultural products the Government planned to purchase from farms. Both measures reflect a more realistic appraisal of the capabilities of Soviet agriculture and the needs of Soviet farms.

The Goverment also established fixed levels of purchases for 1966-70 for most farm products--a constant annual level for grain and a gradually increasing level for livestock and other farm products. Purchases above these fixed levels, which are anticipated by the planners, are made at bonus prices; 50 percent bonuses for grains and cotton, and varying percentages for certain other products. From 1965 through 1967, these

Table 2.--Soviet Union: Agricultural production and targets for future production under old and new plans

Item	Agricultural production				Production targets under old plans 3/			Production targets under new 5-Year Plan	
	Average 1961-65 1/	Maximum 1961-65 1/	1965 1/	1966 2/	7-Year Plan 1965	20-Year Plan 1970	20-Year Plan 1980	Average 1966-70 4/	1970
	Billion rubles								
Gross agricultural production	52.4	56.0	56.0	61.5	82.4	124.5	174.3	65.4	5/72
	Million tons								
Grains	130.3	152.1	121.1	171.2	164-180	230	295-300	167	6/180
Potatoes	81.6	93.6	88.7	87.9	147	140	156	100	5/110-115
Vegetables	16.9	19.5	17.6	17.9	n.a.	47	55	n.a.	n.a.
Sugar beets	59.2	81.2	72.3	74.0	76.84	86	98-108	80	5/80-85
Oilseeds	5.7	6.6	6.1	7/7.1	5.5	8	9-10	n.a.	n.a.
Cotton	5.0	5.7	5.7	6.0	5.7-6.1	8	10-11	5.6-6.0	5/6.0
Fruit and grapes	6.5	8.1	8.1	7.8	13.2	28	51	n.a.	n.a.
Meat	9.3	10.2	10.0	10.8	16.0	25	30-32	11	6/12
Milk	64.7	72.6	72.6	76.0	100-105	135	170-180	78	6/85.7
Eggs (billions)	28.7	30.1	29.1	31.7	37	68	110-116	34	6/38.7
Wool (1,000 tons)	362	373	357	371	500	800	1,000-1,100	n.a.	n.a.

1/ (70). All figures as reported by the USSR, i.e., "bunker weight" for grains and oilseeds; fat and offals included in meat; milk including direct consumption by calves; etc. Thus, they are not comparable in all cases with USDA estimates.
2/ (71).
3/ (87).
4/ (69).
5/ Targets estimated on basis of other available data.
6/ (78).
7/ Estimated. Data on sunflowers only in cited source.

n.a. = not available.

policies were adhered to and even made more favorable for farms in some areas.

Incomes: Farm prices and incomes have risen sharply since 1964. Major price increases were announced for grains and livestock products in March 1965; price increases for other commodities have been instituted since November 1964. The lower level of required sales of farm products to the Government and the payment of bonuses for sales above this level have further contributed to the sharp increase in prices received by farms.

These policies were augmented in 1966 along with specific policies to raise the farm wages and improve the method of payment. The traditional method of paying collective farm members--usually at the end of the year and from the residual after other farm costs had been paid--is being changed to a regular monthly payment system with priority over other payments from the farm's income. Additional bonuses may be paid at the end of the year, depending on accomplishments. Collectives unable to meet these higher, regular wage payments are being extended Government loans. Furthermore, collective farm wages are planned to be raised to the prevailing wage for similar work on State farms. These measures and a good 1966 harvest increased collective farm income; the income of collective farm workers jumped by almost 40 percent between 1964 and 1967. State farm machinery operators have been authorized bonuses for peak cultivation and harvest operations since 1966 in an effort to retain skilled farm workers and improve cultivation and harvest operations.

To convert these improved monetary incomes into real incentives, the Soviet Government is channeling larger resources into the consumer goods industry, with special attention to the flow of consumer goods into the rural sector. The long-standing policy of charging higher retail prices for consumer goods in rural areas than in urban areas is being eliminated. Efforts to improve the quantity, quality, and method of distribution of consumer goods in rural areas are underway.

The new Soviet Five-Year Plan envisages a major improvement in the present adequate, but high-starch, diet (table 3). If achieved, these consumption increases would compensate substantially for the lack of improvement in the diet between 1961 and 1965, but they would not provide an average diet of the composition and quality considered desirable by the Soviet Government.

Table 3.--Soviet Union: Planned increases in per capita consumption of major foods, 1965-70

Food commodities	Percentage increase
Meat	20-25
Milk	15-18
Sugar	25
Vegetables	35-40
Vegetable oils	40-46
Fruits	45-50

Source: (1).

Inputs: Agricultural research and the application of better farming techniques have been released from some of the more repressive strictures which prevailed until 1964. Land use practices since 1964 appear more reasonable than those followed from 1958 to 1963. The removal of Lysenko from dominance over Soviet biology and the broader dissemination of the views of leading agricultural specialists reflect a tendency to open up scientific discussion and to measure the value of research by its results rather than by its political acceptability.

Productive inputs and capital investment increased significantly during 1964-67 and are

scheduled to increase rapidly during the remainder of this decade (table 4). Most striking has been the increase in fertilizer application, especially on grain. Notable increases in annual deliveries of machinery--especially tractors and trucks--have also taken place since 1964.

Land use, irrigation, reclamation, and soil conservation practices have all undergone significant changes since 1964 as a part of the agricultural programs of the USSR leadership which replaced Khrushchev. The extensive corn program and the practice of plowing up grass and fallow land have been reversed. The sown area has declined, especially the grain area, and the area left fallow or planted to grasses has increased. The previous heavy exploitation of dry areas in the "virgin lands" is being gradually relaxed, with greater use of fallow, stubble mulching, and other measures appropriate to such regions. Greater emphasis is being given to the non-black-soil regions in the northern part of European Russia where moisture is more plentiful and regular, and to winter grain production in the Ukraine and North Caucasus where yields are higher and the response to fertilizer is greater.

In 1966, a major program of land reclamation and irrigation was announced for 1966-75. From 7 to 8 million hectares of land, mostly in the drought-plagued areas of the southern Ukraine, the RSFSR (Russian Republic), and Central Asia, are to be irrigated. From 15 to 16 million hectares are to be reclaimed, improved, and drained--primarily in the non-black-soil zone. These measures are designed to stabilize grain

Table 4.--Soviet Union: Major inputs in agriculture, 1956-70

Item	Actual 1/		Planned 2/
	1956-60	1961-65	1966-70
	Billion rubles		
Capital investment, total for 5-year period	27.3	42.9	3/71.0
	Thousands		
Average number of machines delivered annually to agriculture:			
Tractors	149.5	218.5	358.0
Trucks	96.8	70.9	220.0
Grain combines	4/65.0	77.4	110.0
	Million tons		
Fertilizer delivered to agriculture annually by end of period (gross weight)	11.4	27.1	55.0

1/ (70). 2/ (69). Original targets of Five-Year Plan. These targets apparently were reduced moderately during the latter part of 1967, but data are not available on the new targets. 3/ Plan directives were not explicit as to whether this refers to total investments in agriculture or only to investments in agricultural objects of a productive nature. 4/ Excludes deliveries of unassembled combines from 1956 to 1958 to machine-tractor stations and repair-technical stations. Deliveries averaged 77,700 if these are included.

yields. The plan also calls for providing water for livestock on about 51 million hectares of pastureland. In 1967, a program for correcting some of the serious problems of wind and water erosion was announced, including the planting of shelter belts, forestation, and terracing operations on 1.2 million hectares.

Organization and Management: Farm size, tenure, organization, and management have not been changed significantly under the new programs. Land remains the property of the State and is allocated primarily among State and collective farms. The movement toward fewer, larger collective farms and more State farms has continued under the present Government, but some decrease in the average size of State farms has taken place. Controls over private garden plots of farmers and other individuals and the marketing of the produce from these plots have been relaxed since November 1964. Other measures, such as financing the purchase of livestock by individuals and the sale of feed to individual owners of livestock, have been adopted by the Government to support production in the private sector.

At various levels of farm management, however, the new Soviet Government made some significant changes. It abandoned the agricultural-industrial split in local Party and Government organizations instituted by Khrushchev in 1962, and reduced the interference by Party officials in local farm management. It also gave the Ministry of Agriculture once again a pivotal role in agriculture and reinstated V. V. Matskevich as Minister--a post he held during 1955-60. There is also some indication that greater opportunity now exists to exercise individual discretion at the farm level.

The Government has attempted to lessen national budgetary financing of State farms and to make them self-supporting. A model program for this purpose was extended in 1967 to about 400 State farms, 3 percent of the total, and is scheduled to be extended to an additional 400 farms in 1968. For farms participating in the program, prices for commodities sold to the State were raised to the level of prices paid collective farms. The program also features a profit-sharing plan for farm workers and greater independence of farm management from central control.

Although a variety of significant proposals has been made by various Soviet writers calling for major changes in farm management and in the use of market forces in agriculture, most have been rejected by the present Government, which appears to rely upon the new policies outlined above to stimulate output and improve performance within the existing farm system.

Foreign Trade: Agricultural trade has undergone significant changes, not because of any noticeable shift in trade policy, but as a consequence of the unfavorable crops in 1963 and 1965. Imports of food products and edible raw materials jumped from 11.5 percent to 20.2 percent of total imports between 1962 and and 1965, while exports of these products fell from 13.3 percent to 8.4 percent of total exports during the same period. This reflects primarily the shift from large net grain exports to large net grain imports. Soviet exports of vegetable oils and cotton have, however, been increasing as production has increased. The rapid reduction of trade with mainland China since 1961 has been offset by increased trade with other Communist countries and to a lesser extent with non-Communist countries.

Except for the unusual imports of wheat from the United States in 1964, there has been little change in the Soviet Union's small agricultural trade with the United States.

The present Soviet Government has revealed little about its trade plans except its desire to increase the share of manufactured products and reduce the share of raw materials exported. Officials have indicated an intention to regain a net grain export position. For other agricultural products, except those for which production within the USSR is clearly not feasible, achievement of at least self-sufficiency is still a major objective.

Conclusion: The pattern in the past of sharply changing agricultural policies in the Soviet Union and the sensitivity of these policies to shifts in political and economic priorities will probably continue. Since 1964, policies to increase production have been accompanied by specific measures which have favorably affected Soviet farm production. If these measures continue to be carried out, continued improvement in Soviet agricultural production seems likely during 1968-70, marking an important departure from the results during 1958-63. These programs were greatly assisted by the exceptionally good 1966 results. However, there are always pressures to allocate resources in other directions than those favored since 1964. These pressures were especially evident during the latter part of 1967 and moderate reductions apparently were made in the original investment targets of the Five-Year Plan.

EASTERN EUROPE

Agricultural policy in Eastern Europe 4/ has passed through several phases since the solidification of Communist control after the Second World War. Domination by the Soviet Union resulted in attempts to introduce policies similar to those adopted earlier in the Soviet Union. Rapid industrial development became the dominant goal under a State-controlled economy, with agriculture subordinated to this objective and viewed as a source of capital as well as of food and raw materials. Economic and agricultural institutions similar to those in the USSR--collective farms, State farms, machine-tractor stations, and private household plots--were introduced. As in the USSR, a major developmental objective was self-sufficiency.

Over the two decades since these programs were initiated, the influence of the USSR in some areas of domestic policy in these economies has been weakened, and the deficiencies of earlier policies have become apparent. This, plus a serious slowdown in the rate of economic growth in many of these countries in the early 1960's and a growing awareness of differences in the standards of living between East and West, caused them to reappraise past policies and to experiment with a variety of economic reforms. Although the proposed reforms are significant, they are only now being cautiously introduced in most countries and involve primarily the industrial-urban areas. But long needed reforms are gradually being introduced in agriculture in all countries. Ultimately, these reforms could bring about the development of market forces in these socialized economies, but this will depend upon the pace at which these programs are introduced and the extent to which the governments are willing to allow market forces to replace political commands in economic decision-making.

The major long-term policy objective of the Communist parties of Eastern Europe is still the full socialization of agricultural resources. Most of the usuable land and a large proportion of the livestock were already socialized by about 1962 in Bulgaria, Czechoslovakia, East Germany, Hungary, and Romania. Only Poland and Yugoslavia maintain sizable areas of privately owned farms. But

4/ In this discussion, "Eastern Europe" includes Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, Romania, and Yugoslavia.

both nations are actively encouraging cooperative farming and have imposed legal restrictions on the size of landholdings, purchases of farm equipment, and the use of hired labor--all of which have contravened the development of viable, independent farm units.

In the past decade, East European economies were guided by the politico-economic dictum that maximum output and efficiency could be achieved simultaneously with the socialization of economic resources. Because the weight of effort was given to socialization, under conditions of compulsion and low economic priority for agriculture, only some of the stated objectives of output and efficiency were achieved. Collectivization was completed, industrial development was furthered, and agriculture was subordinated, but output in most countries remained low and unstable, and productivity and efficiency did not improve significantly. Moreover, collectivization left a weakened resource base in most countries. Arable land declined in East Germany, Hungary, and Poland; cattle numbers declined in Bulgaria and Hungary; skilled labor left agriculture, and the low investment over a long period of years in all countries kept efficiency low and costs high.

Between 1963 and 1967, the countries of Eastern Europe commenced major new agricultural programs to correct this deficiency. The reappraisal of agricultural policy at this time was primarily influenced by the economic need to find a solution to the declining rate of agricultural and overall economic growth in most of the countries during 1960-63. Increasing the rate of growth, or alternatively, stabilizing the rate of growth in the agricultural sector, subsequently preempted the importance of achieving full socialization of resources between 1965 and 1970.

New programs: No single country program has been established as the single economic model for attaining the long-delayed production gains, but there are few divergencies from generally accepted guidelines. For example, priority is given to increasing the use of material inputs--fertilizer, machinery, etc.--followed by major reforms in pricing policies and the use of economic levers and, finally, by introducing management and organizational programs which give more of the day-to-day decision-making authority to farms. Agricultural production goals are also generally lower and more closely related to the economic capabilities of each country than in previous programs.

Plans through 1970 reflect this change. Strong rates of growth, varying from 5.4 percent to 4.6 percent a year, are planned for Bulgaria, East Germany, Romania, and Yugoslavia, while lower rates of 2.5 to 2.9 percent are planned for Czechoslovakia, Hungary, and Poland. The plans thus appear to take into consideration the stage of economic development of each country and its past performance.

Policy decisions favoring the increased use of fertilizers, insecticides, pesticides, hybrid seeds, and the broader introduction of modern agricultural techniques have been implemented more quickly than adjustments in farm prices or organizational reforms. But all policy decisions still endorse the need to strengthen the socialist sector. Specifically, programs described as "agro minimum" have been introduced in Yugoslavia and Poland, both of which have the smallest areas of socialized landholdings. These programs either limit or prohibit further fragmentation of private farms. The aim is to encourage increased output on farms that can use cooperatively held machinery, or alternatively to give the Government the first option to purchase or distribute the land. The long-term objective is to eliminate inefficient farms which could compete only if farm prices were raised significantly.

Although individual country programs differ in emphasis, all countries are introducing similar programs. The difference in emphasis is more a function of the stage of economic development or specific conditions in each country than an attempt to formulate a policy independent of Communist thought. Emphasis is given to organization and management programs in the industrially advanced countries of East Germany and Czechoslovakia, where agricultural possibilities are limited and already fairly intensively exploited. These programs, which foster closer cooperation between farms and industries processing agricultural products, are designed to integrate the farm and industrial sectors into the overall program of economic development. Both countries are short of farm labor and both already have a high degree of infrastructural development in rural areas. In East Germany and Czechoslovakia, productivity and the economic use of scarce resources are more important to the success of farm programs than motivating the underemployed. Therefore, priority is given to the productivity and economic viability of the farm, and to raising the level of farm income.

In Poland and Yugoslavia, price incentives are being relied upon to motivate the large number of underemployed peasants. Here the deciding factor is Government dependence on the skill of the peasant, since the volume of material inputs is still relatively low and major immediate changes in farm size and organization are ruled out. It is only in recent years that the governments of both countries have begun to supply larger quantities of material inputs to the dominant private farm sector. Formerly, nearly all of the fertilizer was used by the collective or State farms or was distributed to those farmers who participated in an agricultural cooperative in Yugoslavia or were members of an agricultural circle in Poland. To adjust to the hoped-for increase in production, procurement organizations are also being strengthened and purchase contracts have been expanded to obtain the desired quality and volume of produce more economically and with less compulsion. Government procurement of farm products in many East European countries has thus shifted from compulsory deliveries to "contracts." For some commoditites, usually the less essential or already favorably priced ones, these contracts resemble true market contracts; but in other cases, especially for basic commodities, the farms are not free to refuse to contract with the Government at stipulated prices, at least for a certain quantity of output.

In Hungary and Bulgaria, increases in both prices and material inputs have been more important policy objectives than reorganizational schemes; but again the stage of economic development has been a factor in the determination of choices. In Hungary, an upward shift in prices has been used to stimulate inefficient producers and to improve the use of scarce labor. Additional inputs are encouraged, but because of heavy dependence on imports for supplying these inputs the application rate has been lower than the planned objectives. Bulgaria has also used higher prices to bring abandoned land back into production and to motivate underemployed labor. More inputs have become available but there is still a big gap between requirements and the industrial capability to supply these inputs. Additionally, Bulgaria intensified its programs for irrigation and for a more rapid introduction of advanced technology and science in the agricultural sector. However, management and organizational changes have become more important in recent years. For example, in 1967 Bulgaria drafted a new model collective farm statute as well as one for the Union of Collective Farms. Major programs to define territorial specialization of farms and to introduce a 5-year contract program for state purchase of commodities were announced during the past year.

Romania is currently using all three elements of policy to expand production. The first priority is expanded use of material inputs, followed by organizational reforms, and finally, price incentives. Continued strong centralized control over agriculture and limited experimentation with economic levers is characteristic of Romania. Endowed with good natural resources and a labor surplus, Romania has seriously neglected agriculture during most of the past decade and has retained more of the command economy elements than the other countries. However, the increasing demand for hard currency, a more rapid exodus of farm labor, and the pressure for an improved standard of living have made it incumbent on the Government to find correctives for rural decay. New programs aimed at improving the income of farmers and raising the standard of living are the first steps being undertaken. Reorganization of farms is designed to improve efficiency and lower investment costs.

Farm prices: Eastern Europe became increasingly more market-oriented after 1960 and gradually introduced economic rather than politically administered levers to stimulate production. Farm prices in nearly all countries are now established at levels which are more representative of relative scarcity of products and costs of production. In Bulgaria, for example, because of the current priority given to expanding grain production, grain prices have been increased. Prices for livestock products have also been increased but the relationship to costs of production is not as favorable as for grain. Special price supplements are offered to marginal livestock producers in mountainous areas.

In Hungary, purchase prices for agricultural products were raised in 1966 to correspond to the level of average production costs on collective farms. East Germany still has a dual-price system for livestock products: one offers low prices for compulsory deliveries; the other is more indicative of an incentive price. This form of price regulation reportedly has been maintained to accommodate the differences in resources among the various collective farms. A more important reason for the dual system is the lack of Government control over livestock resources, which to a large extent are still held by individuals in the least collectivized type of collective farm. Compulsory prices guarantee at least a minimum quantity to the Government at low cost, while higher prices are necessary if additional sales are to be elicited.

Poland introduced a new grain purchasing plan in 1967 to offset some inadequacies of its old compulsory delivery system. Purchase contracts are made with producers; participants in this program are able to buy fertilizer and mixed feeds at discount rates. The program offers additional price stimulants to farmers who sell a large share of their grain to the Government. Both schemes are intended to raise the total volume of Government procurements. In Romania, fixed prices of agricultural products have been increased gradually. Differences still exist between the prices paid to State farms and to collective farms, but they are offset partially by offering premium prices to collective farmers for providing more than required by delivery contracts.

Yugoslavia has made the most rapid move toward introducing a free market for agricultural products. In 1964, the Government abandoned the policy of low agricultural prices. Guaranteed minimum prices, which correspond to the level of world prices, were introduced. Exports of agricultural products are encouraged and imports are more nearly guided by internal and external market conditions. Because of the emphasis on wheat production, the current price for wheat results in relatively greater returns than for other agricultural products.

Taxes, investment and credit: Formal taxes on farm income in Eastern Europe vary from a 4.5 percent income tax for farms in Bulgaria to no taxes on collective farms in East Germany. East Germany, however, plans to introduce a tax based on soil differences. The intent is to equalize incomes of the favorably endowed and less well endowed farms. In Romania, the collectives are also taxed on the basis of the type of land and location of farms. Hungary's tax is based on farm income.

These taxes give only a small indication of the real tax burden on farms in these countries, however. Since in most countries the governments fix prices of farm inputs and of most consumer goods, as well as the prices at which at least a certain percentage of farm products are sold, the real tax burden depends upon the extent to which these prices are manipulated in favor of or against farms.

Investment and credit policies in all countries are guided by existing capital shortages. The higher prices introduced for farm commodities are designed to give farms more working capital, increase the wage fund, and allow them to purchase more farm machinery. All three elements reflect the growing cost consciousness of East European planners and a shift in the responsibility for investment to the farm. This is in line with long-term programs to reduce subsidies to inefficient collective farms and to decrease direct contributions to State-owned farms.

Foreign trade: Because of their relatively small size and limited resource base, East European countries depended heavily on foreign trade prior to the Second World War to augment their economies. After the war, a combination of factors such as domination by the USSR, attempts at economic self-sufficiency, the drive to develop industry, and the agricultural institutions and policies imposed, reduced the agricultural trade of these countries and shifted it largely to the USSR and other Communist countries. Economic difficulties in recent years and the specific agricultural shortfalls of the USSR since 1963 have brought a reappraisal of the need for trade with other countries.

Earning hard currency from the export of surplus agricultural production is a primary goal of agricultural policy in Bulgaria, Hungary, Poland, Romania, and Yugoslavia. Czechoslovakia and East Germany are major importers of agricultural products, but both still export small quantities of raw or processed products. Only Yugoslavia and Poland benefit from the tariff privileges accompanying membership in GATT.

Expansion of agricultural exports also means that internal consumption yields to the policy preference to earn hard currency. Because per capita consumption of meat and livestock products is low in Bulgaria, Romania, and Yugoslavia, these countries are in a vulnerable position if viewed as potential competitors in Western markets. Even Poland, a major exporter of live animals and processed meats, has recently been forced to review its policy of agricultural exports to accommodate internal demands for higher food consumption. But the exporting countries of Eastern Europe, in a good agricultural year, still supply an important share of agricultural products imported by Western Europe. Romania and Yugoslavia export corn and other grains. Eggs, poultry, and meats are exported by Hungary, Poland, and Yugoslavia.

Because Eastern Europe has limited foreign exchange reserves and no convertibility, major agricultural commodities have been imported mainly through bilateral agreements. Exceptions to this policy have been Yugoslavia and Poland, both of which were recipients of U. S. agricultural commodities under P. L. 480.

In Eastern Europe, there are no quotas or quantitative restrictions, as such, on imports of major agricultural products. Foreign exchange limitations and government preferences for importing nonagricultural products, more than other factors, limit the free flow of agricultural imports. There are, however, variable quotas on imports of alcoholic beverages, processed meats, and fruit products in Yugoslavia. In addition, with the intention of conserving foreign exchange, the governments of East European countries require import licenses by foreign trade enterprises. Most-favored-nation treatment has been extended to East European countries by all principal West European countries, Canada, and Japan. Only Poland and Yugoslavia receive MFN treatment from the United States.

Despite the renewed interest in trade with non-Communist countries, trade remains a monopoly of the various East European governments, and the level of domestic food and raw material consumption is also controlled by these governments. Yugoslav enterprises operate under somewhat less Government restraint than those of other Eastern European countries, but guidelines are still established by Government fiat. Bilateral trade agreements and inconvertible currencies are still dominant characteristics of the trade of these countries. At present, none of the countries plans to augment the domestic diet by major increased in agricultural imports and most seek to selectively expand exports and reduce imports of agricultural commodities. Cases in point are Poland and Yugoslavia, both of which want to reduce grain imports sharply during 1966-70.

Nevertheless, a more realistic and economically oriented view of the possibilities of foreign trade, and of comparative advantage, is emerging in these countries. Expanding agricultural trade in Eastern Europe, however, will depend on a variety of factors, both internal and external--for example, the development of more realistic price systems, the future course of production in each country, the development of convertible currencies or some substitute for them, the implementation of consumer-oriented programs, and the relaxation of trade barriers between these countries and non-Communist countries.

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